

## Memorandum

**TO:** RULES AND OPEN  
GOVERNMENT COMMITTEE

**FROM:** Paul Krutko

**SUBJECT:** SEE BELOW

**DATE:** January 24, 2008

Approved

Date

1/24/08

**COUNCIL DISTRICT:** # 5

**SUBJECT: MEXICAN HERITAGE PLAZA CONSULTANT ASSESSMENT  
PRESENTATION**

### RECOMMENDATION

That the Rules and Open Government Committee accept and provide direction on the following reports and related response:

- "Assessment of Optimal Uses and Sustainability of the Mexican Heritage Plaza, San José, California" by Maribel Alvarez, Ph.D. conducted and written in collaboration with Tom Borrup, Community Cultural Development, for discussion;
- the Appendix report "Analysis of the Operations and Maintenance Agreement between the City of San José and the Mexican Heritage Corporation" by Strategic Philanthropy Advisors, LLC;
- and the "Response by Mexican Heritage Corporation (MHC) to Consultant's Report" dated January 16, 2008 from MHC.

### OUTCOME

Review of the Mexican Heritage Plaza (MHP) consultant presentation and stakeholder input followed by discussion with direction to staff to develop preliminary recommendations to be released on February 22, 2008 to the Rules and Open Government Committee for discussion at Rules on March 5, 2008. At this March 5 meeting further discussion is expected to occur with additional direction to staff concerning final recommendations to be heard at the City Council meeting on March 18, 2008, at the evening session.

000001

## **BACKGROUND**

On June 8, 2007 the City of San José in partnership with the San Jose Redevelopment Agency released a Request for Proposal (RFP) to engage a cultural facilities specialist and an organizational management specialist experienced in non-profits and municipal governments to:

1. Conduct an assessment of the Mexican Heritage Plaza (MHP) to determine optimal uses for the facility; and
2. Conduct an assessment of the current organizational capacity of the Mexican Heritage Corporation (MHC) with an identification of areas that may require changes to their current operational model.

The RFP efforts resulted in two consultant teams being engaged for this project. For the MHP assessment, Maribel Alvarez, Ph.D. with the support of Tom Borrup of Community Cultural Development was chosen. For the MHC assessment, Strategic Philanthropy Advisors, with Margaret Southerland, Principal and Founder, was identified. The consultant selection process included participation by the City Manager's Office, San Jose Redevelopment Agency, Arts Commission, Office of Cultural Affairs, Teatro Visión staff and Board representatives (an MHP Resident Arts Partner), and the Mexican Heritage Corporation as represented by its Executive Director/CEO and a member of its Board.

During the consultant selection process, MHC did raise certain concerns to the former Chief Deputy City Manager about the process, including the limited number of proposals received for the candidate pool; the composition of the selection panel; and the need for a stronger economic feasibility component for the MHP assessment proposal received. In response to the concerns raised, the Chief Deputy City Manager communicated with the Executive Director and members of the Board of Directors by phone and e-mail to clarify and differentiate the scope of services of each of the consultant RFP's, the timing and sequencing of the work to be completed by each consultant and MHC's participation in providing information to each of the consultants as they proceeded to complete their respective analyses. The former Chief Deputy City Manager confirmed that it would have been preferable to have received a larger number of proposals; however, the three proposals received had been reviewed for responsiveness to the RFP and the proposers were deemed to have met the qualifications to perform the work. In response to concerns raised regarding interview panel composition, the list was provided to MHC that confirmed a broad institutional representation to interview three consultant teams, one (1) for the MHP assessment and two (2) for the MHC assessment. Also, additional funds were identified to include increased hours for the economic feasibility efforts by Community Cultural Development as part of Maribel Alvarez' proposal.

MHC did convey to the former Chief Deputy City Manager that their issues had been addressed. Based on this and the satisfaction of the other members of the selection panel regarding the quality of the proposals, the City proceeded to contract with two consultant teams

Both consultant teams are engaged for this purpose through March 31, 2008.

In addition, on January 9, 2008, MHC sent a letter to the City Manager as a formal request for an increase in the FY 2007-2008 Operations and Maintenance (O&M) fee in the amount of

000002

\$300,000. The current fiscal year O&M amount for MHC is \$413,783. Staff plans to respond to this request as part of the recommendation for City Council consideration for the meeting of March 18, 2008.

### ANALYSIS

In 1992 the City of San José and the San Jose Redevelopment Agency moved towards the development of the Mexican Heritage Gardens, now named the Mexican Heritage Plaza. The facility design evolved into a multi-disciplinary cultural arts compound of buildings operated by the non-profit MHC via an O&M agreement with the City of San José. The MHC has been operating the facility since it opened its doors in September 1999. Currently the MHC is at a critical financial and programmatic juncture with its ability to operate the facility effectively, both in the short term and long term, questioned as detailed in an audit conducted by the Office of the City Auditor in March 2007. Subsequently, in April 2007 the City provided MHC one-time emergency funding in the amount of \$175,000 to allow MHC to continue to operate the Plaza through June 2007.

One of the recommendations of the Auditor's Report, was "hiring a consultant to do an in-depth organizational and structural assessment of the MHP and report back to the City Council with recommendations regarding the highest and best use of the facility."

Review of the MHP study regarding the optimal uses and sustainability of the Plaza needs to occur first so that the MHC assessment efforts can utilize the findings in order to complete the final stages of its work. The RFP required the consultants to coordinate their efforts.

The MHP assessment is largely completed. The report is still labeled as a draft to allow for the consideration of any relevant comments or information. The MHP consultant study identifies key findings with optimal use options, including costs, for consideration in determining the direction for the future operation and use of the MHP, and to reconcile, if needed, any City support required. This draft report presents options that are subject to further staff analysis of the economics and costs associated with the operations and maintenance of the Plaza including risk management and are to be reconciled with the Auditor's Report. The four alternative use options are:

- City Rental Venue
- City Departments Collaborative
- Community Cultural Center: City-Nonprofits Partnership
- Community Cultural Center: New Non-profit Organizational Model

As previously stated, the MHC assessment efforts continue with the consultants engaged through the end of March.

In addition, staff is currently preparing a City-wide strategy to more effectively track and enhance the performance of its key non-profit facility operators and service providers. This strategy is currently being vetted with various City departments and subsequently with key external partners that contract with and support non-profit institutions and then eventually the non-profit community.

### **EVALUATION AND FOLLOW-UP**

It is expected at the March 18, 2008 meeting City Council will take action regarding MHP including 1.) identifying the long-term operating model for the Plaza, and 2.) MHC's request for additional funds. Both of these actions will include systems for on-going evaluation and follow-up, including benchmarking steps and performance measures.

### **PUBLIC OUTREACH, INTEREST AND PROCESS FOR COMMENTS**

The public has been significantly engaged in this process with the consultant study including input from up to 350 interviews that include individuals, focus groups and community group contacts. In addition, Mayor Chuck Reed and Councilmember Nora Campos hosted a Community Visioning Session in August 2007 that was attended by over 180 individuals. Both consultant teams were in attendance at this session to observe the public interaction including ideas posted.

On January 11, 2008 City Manager Debra Figone released an Information Memo regarding the status of the consultants' work regarding both the MHP and MHC, and also advising the Mayor and City Council of MHC's request for additional funding. This memo was sent out to the email list generated by the Community Visioning Session as well as other interested individuals. In addition, the memo listed a City web page where comments should be sent, as well as identified a staff member with phone number to contact with questions. The "Response by Mexican Heritage Corporation (MHC) to Consultant's Report" dated January 16, 2008 from MHC was also sent out via email to this same group.

This document will be posted on the City's website for the January 30, 2008 Rules and Open Government Committee meeting. Comments can be sent to: [mexicanheritage@sanjoseca.gov](mailto:mexicanheritage@sanjoseca.gov) or [mexicanheritageplazacomment@sanjoseca.gov](mailto:mexicanheritageplazacomment@sanjoseca.gov)

### **KEY DATES FOR RELATED MEETINGS**

- |                          |  |
|--------------------------|--|
| <b>January 30, 2008</b>  | <b>Rules and Open Government Committee</b><br>MHP Consultant Presentation and Stakeholder Input<br><b>Expected Outcome:</b> Direction to staff   |
| <b>February 22, 2008</b> | City releases Staff Memo with recommendations to<br><b>Rules and Open Government Committee</b>   |
| <b>March 5, 2008</b>     | <b>Rules and Open Government Committee</b><br>Additional discussion of Staff Memo with recommendations<br><b>Expected Outcome:</b> Directions to prepare final recommendations   |
| <b>March 18, 2008</b>    | <b>City Council Meeting; Evening Session</b><br>Council takes action based on Rules recommendations<br><b>Expected Outcome:</b> Approval of final recommendations regarding MHP,<br>and action related to MHC request for increased funding for FY 2007-08 |

**COORDINATION**

This memorandum has been coordinated with the City Attorney's Office.

**CEQA**

Not a project.



PAUL KRUTKO  
Chief Development Officer  
Office of Economic Development

For questions please contact Paul Krutko, Chief Development Officer, 408-535-8182

Attachments: "Assessment of Optimal Uses and Sustainability of the Mexican Heritage Plaza, San José, California" conducted and written by Maribel Alvarez, Ph.D. in collaboration with Tom Borup, Community & Cultural Development, draft.

"Analysis of the Operations and Maintenance Agreement between the City of San José and the Mexican Heritage Corporation" by Strategic Philanthropy Advisors, LLC, by Margaret Southerland, Principal and Founder, draft.

"Response by Mexican Heritage Corporation (MHC) to Consultant's Report" dated January 16, 2008 from MHC.

**Assessment of Optimal Uses and  
Sustainability of the  
Mexican Heritage Plaza  
San José, California**

---

**Maribel Alvarez, Ph.D.**

Conducted and Written in Collaboration with:

**Tom Borup  
Community & Cultural Development**

Submitted to:

The City and Redevelopment Agency of San José  
Office of the City Manager  
200 East Santa Clara Street, 17<sup>th</sup> Floor  
San Jose, CA 95113-1907

**January 8, 2008**

## Table of Contents

Executive Summary.....	3
Introduction.....	7
Findings and Recommendations.....	14
Field Notes: Site Mapping and Local Assets.....	47
Appendices.....	66
<u>App A</u> : List of Participants	
<u>App B</u> : Focus Group Questions	
<u>App C</u> : Corrected Plaza Square Footage	
<u>App D</u> : Theater Rates Comparison	
<u>App E</u> : "Analysis of the Operations and Maintenance Agreement between the City and the Mexican Heritage Corporation" prepared by Strategic Philanthropy Advisors, LLC	
Acknowledgements	

## Executive Summary

### Scope of Work

In July 2007, the City of San Jose in partnership with the Redevelopment Agency commissioned consultants Dr. Maribel Alvarez and Tom Borrrup to conduct a study of the Mexican Heritage Plaza.

Running concurrent with the Plaza study, the City commissioned the firm Strategic Philanthropy Advisors, LLC to examine the financial operating assumptions of the Plaza's current operator, the Mexican Heritage Corporation. A report submitted by Strategic Philanthropy Advisors, LLC to the City containing findings about the Plaza's operation and maintenance costs (O&M) is attached to this Report as an Appendix.

### Overview

The Report contains four sections:

- The **Introduction** takes inventory of the general context in which the study unfolded.
- The section entitled **Findings and Recommendations** contains the comprehensive factual results of our study. Readers interested in the policy dimensions and implications of our research would want to concentrate their reading time in this portion of the Report.
- The section entitled **Field Notes** provides raw data and analysis derived from the mapping of the social and cultural assets in the Plaza's local neighborhood. This section is offered for those Readers interested in obtaining a fuller sense of how the research method of "ethnography" as practiced by anthropologists and community development specialists collects and sorts data and delves into the nuances of people's perceptions.
- The **Appendices** provide supporting documentation on select elements.

### Findings

The Report presents a total of 42 findings covering three major topics: Overarching Community Premises; Local Assets, Vision, Uses, and Identity; and Financial Sustainability.

In some cases, the findings speak about entirely new topics introduced by community participants. Most findings, however, reference well-known claims, arguments, perceptions, and ideas amply discussed by previous consultants, the City, the Plaza operator, and the community at large. Some of the most salient findings included in the Report are:

- The community values the Plaza highly and feels a strong sense of ownership.
- The public is ready for a comprehensive solution to the Plaza's dilemmas.
- The community's overwhelming consensus is that the Plaza's core identity and optimal use is as a cultural center that primarily serves the community.
- The community values the existence of a Residency Art Partners program at the Plaza.
- The community believes that, with notable exceptions, the current programming offerings and priorities at the Plaza do not adequately incorporate the community's assets and interests.

- The community overwhelmingly believes that the current model that blends responsibilities for maintaining the Plaza's physical facility as well as programming it into one single operator is not working.
- The community expressed a strong desire to become an active participant in the crafting and re-tooling of an alternative organizational and programmatic model for the Plaza.
- The analysis of O&M costs by Strategic Philanthropy Advisors, LLC has determined that depending on what types of expenses are considered part of "facility maintenance and operations," the City's annual O&M subsidy to the Plaza in the last two years has covered between 83% and 86% of all costs if basic facility-related staff are included and between 137% and 152% of all costs if staff costs are excluded.
- The City's annual financial support to the Plaza has been substantially higher than for other cultural organizations.
- A ProForma organizational template for a mid-sized cultural heritage organization (CHO) is better suited to the size, capacity, and character of the Plaza than the model of a large cultural facility operator or mainstream art organization.
- The most fundamental change needed to set the Plaza on a course towards financial stability is a new approach to budgeting based on best practices of the nonprofit sector by a Plaza operator.

### Optimal Uses Options

The Report presents the City Council with four options for alternative uses for the Plaza.

	Concept	Facility Maint. (O&M)	Facility Management (booking users)	Cost to the City	Revenue: to offset costs to the City	Aprox. NET Cost to the City	Implications
# 1 City Rental Venue	*Similar to Montgomery Theater or Civic Audt.	City	City	\$420,000	Rental Fees: app. \$300K	\$120,000 annually	*Cultural uses primary *No Mex-heritage focus
#2 City Departments Collaborative	*Location of various City offices: *Theater still art-related anchor	City	City	\$620,000	Rental Fees app \$200K	\$200,000 one-time \$220,000 annually	*Cultural Use secondary *Hodge-podge *Not community vision
#3 Comm. Cultural Center: City-Nonprofits Partnership	*Shared functions City/nonprofit * RAP Progr. * Third-party coordinator	City	Dallas model: City; Hoover model: Subcontractor	\$580,000	Rental Fees: app.\$300K RAP fees app. \$60K	\$220,000 annually	*Cultural uses primary * Expectation that rents be waived / low *Possible gap community needs
#4 Comm. Cultural Center: New Nonprofit Organizational Model	* Nonprofit shapes key site and Mex-heritage identity *RAP Progr.	City	Non-Profit Operator	\$465,000	None	\$465,000 annually	*Community vision *Consistent w/ precedent *No income to offset cost

### **Consultants' Recommendation**

- Options 1 and 2 are inconsistent with community aspirations for the Plaza and the City's prior investments and commitments. The consultants do not recommend any further study or consideration of these options.
- Option 3 represents a viable alternative that addresses some of the community's interest. It offers a possible transition scenario while the City decides on next steps. However, unless further study and analysis are conducted to map in greater detail the logistical implications of this choice, the Consultants do not recommend that the City proceed with this option.
- The Consultants recommend Option 4 as the preferred course of action. This option offers the highest possibilities for a unique identity for the Plaza that honors Mexican heritage and deepens community stewardship. The Consultants note, however, the risk that this option be interpreted as a continuation of the status quo. For this reason, the Consultants emphasize that the viability of this option is strongly predicated on the adoption of an entirely new or substantially re-tooled organizational/operating model by a Plaza operator.

### **Logistical Recommendations to Implement Option 4**

In order to maximize the Plaza's optimal utilization as a community-based cultural center under a new or re-tooled nonprofit operator, the Consultants make the following recommendations:

- The City should take over all aspects related to the upkeep and maintenance of the facility and make payments directly to vendors such as utility companies. Based on actual costs paid by the City for the SJ Museum of Art, the Consultants estimate that the annual cost to the City for the Plaza's O&M (inclusive of janitorial staff) could be approximately \$340,000.
- A nonprofit Plaza operator should embrace with all reasonable means the community expectations that the majority or all of its programs will take place at the Plaza; that access to community uses be increased; that the RAPs be incorporated into the Plaza's inherent operating model; and that a focused, coherent, and predictable plan for locally relevant, Mexican heritage programming be developed and implemented.
- A nonprofit Plaza operator should embrace the ProForma Budget template (and its programmatic, staffing, and fundraising assumptions) and the Best Practices Budgeting recommendations referenced in this Report and in the report by Strategic Philanthropy Advisors, LLC as a means of stabilizing the Plaza's finances and increasing opportunities for community stewardship.
- An operating grant of approximately 15% of the nonprofit operator's ProForma operating budget (exclusive of facility costs paid for in the O&M agreement) should be considered by the City in exchange for the facility uses and programming described above. It is estimated that this could represent an annual operating subsidy of approximately \$125,000.
- The City and a nonprofit operator must agree to a mutually crafted set of performance measures and monitoring mechanisms to ensure adherence to the conditions enumerated above. The community should be given opportunities for input and participation in this process.

*"It's not about who has the cleverest arguments or the best shot at spinning the headlines...the future of the Plaza should not be cast as a public relations contest...it is about people's deep sense of what is right, what works and doesn't work, and what makes sense moving forward."*

*San Jose Resident,  
Assessment Participant*

## Introduction

### Points of Departure

Many people interviewed for this study remarked that the very use of the word “plaza” in the name of the facility conjured up a vision culturally significant to most Bay Area residents of Mexican origin or descent: a town-square of sorts, a gathering place where cultural, social, educational, and entertainment options intersected throughout different times of the week; a place where youth, families, and the community at large would have the opportunity to choose from diverse offerings of events and activities.

The site and location of the Plaza, in the historic Mayfair neighborhood where Mexicans first settled after the US-Mexico War of 1848 and where Cesar Chavez lived and organized the first major boycott against a large supermarket chain, is considered by many the “birth site of the Chicano Civil Rights movement.” The location of the Plaza in this neighborhood was not a geographical accident. As one person told us, *“this is not just any corner in any American city; it is a place of sacred social memory.”*

However, despite these meaningful aspirations, the Plaza’s promise has been marred by a widespread sense of “touch-and-go” instability since its inception.

Three crucial sets of issues have framed the Plaza’s struggles:

- The tension between design and intention in the construction of the Plaza; on the one hand, a facility largely designed to be a presentation and rental venue; on the other, an expressed intention on the part of the Plaza’s founders and the community that it serve as a site for grassroots community cultural participation.
- The ability of the Plaza’s operator to find and stabilize a model of financial sustainability vis-à-vis the level of support the City of San Jose is able to commit to the operations of the facility.
- The programmatic and management competencies of the Plaza’s operator, which have fluctuated over time across differing ideologies and artistic interests.

There have been periods over the last nine years when community participation in the Plaza has been more visible and enthusiastic than at other times. Select individual events and activities at the Plaza have left a mark in many who have attended them.

Historically, programming success and success in financial stability have not advanced in tandem at the Plaza. More often than not, success in one area has been deemed to take place at the expense of the other area.

In 2003-04, for example, the Plaza enjoyed one of its most prolific community programming calendars. Yet, that period coincided with one of the worst financial crises in the Plaza’s history. This situation led some to believe that without a higher amount of subsidy from the City of San Jose, “community

programming” was not cost-effective and hence not advisable for setting the Plaza on sound financial footing.

But the findings of our Assessment reveal that the general public does not accept a thesis of Plaza sustainability that counterpoises “community programs” against “financial solvency.” Neither is this a proposition that holds any sway among the national nonprofit arts sector in general.

We are confident that this dichotomy, as well as many others we identify in this Report, can be overcome.

We also believe that acting on a re-tooling strategy requires stepping back from the current assumptions, re-evaluating the tactics thus far employed, and reconstructing an arts management model fundamentally different from the ones attempted up to this point.

Throughout our study, the community expressed their desire to recognize that the Plaza is not sitting idly on an abandoned lot. Many who participated in a critique of the Plaza are also avid supporters and frequent attendees at Plaza events. Some told us they are ready to become donors if such an opportunity was offered. However, as one person stated, “nobody knows everything and there should be no shame attached to self-critiquing.” An overwhelming majority in the community believe that a more deliberate, publicly vetted visioning process and an explicit commitment to self-assessment are long overdue at the Plaza.

### **Scope of Work**

In July 2007, the City of San Jose in partnership with the Redevelopment Agency commissioned consultants Dr. Maribel Alvarez and Tom Borrup to conduct a study of the Mexican Heritage Plaza.

The City requested that the study focus specifically on determining alternative and compatible community use options that are economically feasible and that broaden, deepen, and diversify participation at the Plaza. The consultants were asked to address plans that reflect the unique characteristics and assets of the geographic service area of the Plaza and that address the interests and self-identified needs of local residents.

The “Plaza” and the “Corporation” are two distinct entities. The “Plaza” refers to the physical facility; the “Corporation” refers to the nonprofit entity that operates the Plaza under contract with the City of San Jose.

Running concurrent with the Plaza study, the City commissioned the firm Strategic Philanthropy Advisors, LLC to examine the financial operating assumptions of the Plaza’s current operator, the Mexican Heritage Corporation.

It was envisioned that the findings of one study would inform and shape the specific tasks of the other, both chronologically and synergistically. Some of the research conducted and the data presented in this Report was produced jointly; however, each consultant also retained his or her autonomy. Altogether, an excess of 900 hours were invested in the study by the three consultants.

The assessment of the Plaza was not an “audit” of the MHC organization. We are neither accountants nor lawyers. Our areas of expertise are arts management, nonprofit finances, community development, cultural anthropology, Latino cultural heritage and cultural policy, and fundraising. We were asked to

bring our knowledge of best practices in these areas to a systems analysis of how the Mexican Heritage Plaza can best fulfill its promise as a unique and distinctive cultural heritage facility.

As stated, this assessment was requested and commissioned by the City of San Jose. The current Plaza operator, the MHC organization, responded to our requests for information and allowed us access to staff and Board members for interviews. We are grateful for their cooperation. But it is important to acknowledge that while most nonprofit organizations choose their own consultants to help them engage in self-assessments as part of strategic planning, this particular study and assessment were not initiated by the MHC organization and hence may or may not correspond with the MHC organization's perceptions and analyses.

This was a research project that turned largely to participants external to the MHC organization. A key issue on the table between the MHC organization and the City of San Jose is the level of public funds that go to the Corporation every year to maintain and operate the Plaza. Insofar as the City's "clients" are the taxpayers, any discussion that pivots around higher levels of public funds also becomes a discussion among and with the community.

Throughout the study, as well as in the writing of this Report, we made an effort to represent the collective wisdom of broad sectors of the cultural and civic community. It is our sincere hope that the pages that follow capture the spirit and form of an open and fair research process. Except for those occasions where contextual reference or public statements make identification inevitable, we offered anonymity to all the persons interviewed. While the names of all participants are disclosed, no attributions are made to specific individuals.

### Participants

Among the voices we have sought to represent in these findings are close to 200 citizens who participated in a Visioning Forum convened by San Jose Mayor Chuck Reed and Councilmember Nora Campos at San Jose's City Hall in August 2007. In addition, we conducted in-depth interviews with approximately 75 stakeholders and engaged 50 San Jose and Bay Area residents in Focus Groups.

Participants in the study represented a wide spectrum of local, regional, and national points of view. They included immediate neighbors of the Plaza as well as representatives of major philanthropic foundations and important Plaza corporate sponsors. The large majority of those interviewed shared deep connections to the Plaza's programs. For example, 70% of those who participated in the Focus Groups reported having attended five or more events at the Plaza during the last year.

Our research approach acknowledged that the Plaza has a resonance beyond San Jose. We held a meeting of art professionals in San Francisco and talked to national stakeholders. However, we must state that a narrow polarized local focus was never a problem even when we interviewed San Jose residents. At the Focus Groups, for example, only 20% of participants resided in the Plaza's "95116" zipcode. At least 16% of those who came to Focus Groups held in East San Jose hailed from an area between 10 and 50 miles from the Plaza (including Los Gatos, Evergreen, Milpitas, Santa Clara, Monterey and San Francisco).

Lastly, our research also cast a wide net across the national arts field. We talked to close to 30 staff and Board members at six cultural institutions -- three in the Bay Area and three outside California—that have been able to build facilities and/or operate them successfully under a range of innovative management models. Some of these models have been more favorable financially than others; but none represent a panacea. In all cases, organizations have struggled to define their niche, justify the

investments, build capacity, and remain solvent while producing and presenting art deeply meaningful to their core constituencies.

The organizations are:

- Yerba Buena Center, San Francisco, CA
- East Bay Center for the Performing Arts, Richmond, CA
- India Cultural Center, Milpitas, CA
- National Hispanic Cultural Center, Albuquerque, NM
- Dallas Latino Cultural Center, Dallas, TX
- Multicultural Education & Counseling through the Arts/MECA, Houston, TX

Lessons derived from these comparative institutions are interwoven throughout the findings and inform the recommendations in a general sense. In-depth case studies of these institutions are not included in the Report, but they form part of the hundreds of units of fieldwork data we obtained.

Appendix A provides a list of assessment participants (except those who participated in the Mayor's Visioning Forum).

It is important to note that while interviews were the main method employed to obtain data, the conclusions presented here are not only derived from a loose set of collated "opinions." Each perception, fact, or idea we heard was filtered through rigorous analytical processes and in-depth review of best practices and industry standards in the nonprofit arts and culture field. In social science research, the process of checks-and-balances for analyzing community points of views is called triangulation.

### **Rationale for a Bottom-Up Approach**

Considering that the Plaza's predicaments have been largely reported and debated around questions of financial solvency, we are aware that some members of the community have struggled to understand how a study such as ours—described by one person we talked to as "a bottom-up approach"—could help in any way answer what they considered to be the true "bottom-line" issue: financial sustainability.

Because the connection between these two seemingly opposite poles is fundamental to our findings and to best practices in nonprofit arts management, we address the perceived dichotomy below.

The word "sustainable" has roots in the Latin *subtenir*, meaning "to hold up" or "to support from below." It is the prevailing belief in the nonprofit cultural sector that even in those instances when a sustainability question at hand is primarily of a financial nature, any thriving project or organization has to be *supported primarily from within*—by a community of clients, audiences, and donors who make up the *core constituency* and who can mobilize resources and capacities on behalf of a *shared* vision.

By saying "supported primarily from within" we do not mean self-supporting from earned revenues only. What we mean is that in the United States, under the social contract that distributes responsibilities for the common good in civil society to the three distinct sectors of government, business, and nonprofits, the *rationale* for seeking government and private donor support—at any level of giving—only works insofar it is a rationale anchored in the aspirations, needs, assets, and capabilities of a *base community* of beneficiaries.

Community-benefit rationales are the reasons why charitable foundations make grants, working families give offerings at church, and middle-class Latinos become members of cultural organizations.

Some people we talked to also cited a pragmatic or self-interested argument for paying attention to community rationales. When government fails to provide an adequate level of support for a service, organization, or entity that people care deeply about, it is not usually the articulate grand visions of any leader that causes government leaders to change course. Instead, it is frequently the base of grassroots support, community based stakeholders, and cultural-social activists whose advocacy frequently results in changes in public policy and allocations.

We also heard from many in the community the conviction that the favoring of a community-rationale for gauging the success and viability of cultural organizations must not be based on material considerations alone. Rather, the merits of this approach are cemented on a value-rooted operational principle of inclusiveness and democratic functioning adopted by truly visionary and community-changing institutions.

### **Resolve**

Our critique of existing practices at the Plaza must not be construed in any way as singling out any person, group of individuals, or segments of the community. We acknowledge the tireless hours, exceeding dedication, and good intentions of many individuals involved with the Plaza. We also recognize that important benchmarks of success have taken place against the odds of very difficult structural situations faced over the last few years.

The key question in everyone's mind that cares about the future of the Mexican Heritage Plaza must not be "who is at fault?" but rather --- how can the community be brought together to learn from what hasn't worked and do better?

Our research leads us to believe that it would be a grave mistake to assume that the answers to the Plaza's predicaments rest with one small group of individuals replacing another small group with a different ideology.

Our research findings resolutely affirm that if the Plaza is to truly realize its promise for San Jose's residents of Mexican heritage and the public at large, it will take *large* groups made up of diverse points of view --including many good people who have never been asked to actively participate before in the visioning, planning, programming, fundraising, or governance of the facility they care so much about.

### **Opportunity**

The road leading from "hope" to "opportunity" can be arduous. We don't believe there is just *one way* to operate and program any cultural facility. Organizations, cities, or communities that run exceptional programs and facilities find their own unique rhythm and equilibrium. What works in one location, for one group of constituents, often does not work for another. San Jose's own cultural organizations --some of the large ones, but especially the mid-sized sector--offer many examples of extraordinary inventiveness, efficiency, compelling, and inspiring art and organizational models. Many are recognized by some of the most important national philanthropic institutions for combining sharp artistic focus with strategies of community building and exceptional management.

Some members of the community have argued that there are already enough consultant reports on file about the Plaza and that no further analysis was justified. We tend to agree. Through our study we uncovered plenty of common-sense ideas circulating among community members for the Plaza's long-term success. This is not surprising; when something of value in the social sphere appears broken, people do their best to help repair it. We hope our work contributes in some small way to the collective effort on behalf of the Plaza's optimal uses and long-term stability.

**"If we could create a place where the range of interests and cultures of Mexican-Americans could intersect, we could move mountains...."**

**Mayfair Resident  
Assessment Participant**

## Findings and Recommendations

### Framework

The findings and recommendations presented in the Report are based on the input of more than 350 people over a period of five months.

No single report can claim to have all the answers to the dilemmas confronted by a project as complex and symbolically significant as is the Mexican Heritage Plaza. Neither is it the consultants' role to dictate vision, purpose, or intention. But we can firmly assert that our study of the Plaza examined at unprecedented levels of detail and thoroughness all of the elements that constitute a healthy, sound, and sustainable cultural project, as well as identified the necessary factors that combine successful strategies and practices.

We believe the research we conducted lends credibility to a clear course of action.

It is our hope that the readers of this Report can readily identify in the pages that follow the texture, color, and substance of the community's love for the Plaza and their ingenuity to reach sensible solutions for its future. The people we talked to during the course of this study were caring and smart and demonstrated an unusual degree of knowledge about the workings of nonprofit management. We believe this is reflective of the robust civic culture of engagement and participation in the nonprofit sector that characterizes the Bay Area.

### Key Findings

The Report begins with an examination of the overarching framework of the Plaza's situation; it proceeds with an extensive review of community perceptions concerning the Plaza's programmatic vision and operating model. It concludes with a review of financial best practices and their potential application to the Plaza's long-term financial sustainability. The conclusion outlines possible options for the Plaza's *highest and best use* and recommendations derived from the findings.

### Overarching Framework

1. **The community values the Plaza highly and feels a strong sense of ownership.** Feelings about the symbolic significance of the Plaza for San Jose's Mexican and Mexican-American community run deep. Most frequently, communities become attached to art organizations first, with buildings becoming secondary vehicles in the delivery of the organizations' mission. In the case of the Plaza, the reverse is true. The facility itself commands the community's loyalty and intense emotions. The general attitude towards the Plaza operator, in contrast, is largely pragmatic and dispassionate. As one person in a Focus Group stated, "the role of any organization that operates the Plaza –profit or nonprofit, familiar or new—is to provide credibility to the Plaza's mission: the uplifting of Mexican heritage; everything else is incidental."
2. **With the benefit of hindsight, many in the community expressed that today they would make different decisions about the design and operating arrangement of the Plaza.** However, the community largely rejects the glib and cynical attitude that proclaims that the Plaza is at best a

"glorified community center" or a monument to a self-serving few. The community resolutely affirms the noble character of the Plaza and the good faith of the City in building it.

3. **We found consensus among the community and art professionals that to achieve true distinction --a reputation for excellence far and wide and a unique quality that sets it apart -- the Plaza's vision, programs, and management models need to be grounded in the unique character and assets of its home community and the attributes it possesses.** The Eastside community continues to be considered the center of San Jose's Latino community in regards to its culture and its civic influence. There seems to be no doubt that the "DNA" of the Plaza sprung from this parentage of neighborhood culture and civic involvement. Our findings strongly suggest that a closer relationship between a Plaza operator with its site and location will be smart in terms of stabilizing a financial model, as well as useful in terms of clarifying how the Plaza can be operated from a position of strength as opposed to one of "embattlement." Our findings reveal that a widespread perception of a distance between the Plaza and its core constituency and location has resulted in (a) less compelling arguments for foundations and individual donors to open their pocketbooks to support the Plaza; (b) positioning of the Plaza operator in a reactive/defensive rather than proactive/embracing relationship with its most logical and immediate base of support; and (c) a gradual diminishing of the "trust dividend" that ultimately affords any nonprofit organization the ability to "push the envelope" in terms of programs, quality, and larger ventures, and the credibility to argue a better "case for support" from public and private sources.
4. **Two contrasting schools of thought dominate discussions about the Plaza; one approach emphasizes the lack of external financial capital (deficit model), the other seeks to develop community buy-in as the foundation for sustainability (assets model). The community strongly believes that a healthy balance between these two ideologies is lacking in the current Plaza operating model.** Money matters have driven, and in most instances, overwhelm discussions about the Plaza. Historically, Plaza operators have strongly favored an ideology of "capitalization" (cash infusion) and diagnosed the Plaza's challenges accordingly; the community widely believes that a long-term solution to the Plaza's predicaments must move beyond an analysis based on "deficit scenarios" and promote instead a model of "organic assets" that encourages grassroots giving, participation, advocacy, and stewardship. As one astute person we interviewed noted: *"money matters are one thing, but the most important question is, money to do what?"*

As a matter of general principle, nonprofit organizations, especially art organizations, and specifically ethnic arts organizations, are largely under-capitalized. Yet, many organizations figure out the mechanics of the nonprofit eco-system well enough to not only survive, but also produce compelling works and enhance community values. While one trend among the largest foundations today recognizes the need to "capitalize" nonprofits better by offering less restricted "general operating support" grants, the great majority of the nonprofit arts field is skilled at mining to its benefit many other forms of "capital" (social, symbolic, artistic, sometimes political) that allow the best-run organizations to find workable models of relative sustainability. Great cultural organizations frequently grow tangible capital by mining their intangible and organic social assets first (offering a rationale for investment, deepening grassroots engagement, etc.) and moving gradually towards greater cash balances. Ultimately, a healthy organization needs both forms of capital to succeed.

5. **The public is weary of the seesaw dynamics between the City and the current Plaza operator.** The public's trust on both entities has severely diminished. Many people expressed the belief that both the City and the Plaza operator have engaged in finger-pointing that has been detrimental to a sense of community well-being.
6. **The public is ready for a comprehensive solution to the Plaza's dilemmas. There is a widespread sense among the community that short-term adjustments, last-minute bailouts, or defensive posturing would not move the Plaza closer to stability.** Many believe that short-term actions to address the Plaza problems in piece-meal fashion have only deepened the existing problems. We heard a loud and clear mandate from the community for a rational approach to the Plaza's dilemmas --not an approach that throws money indiscriminately at an organization, neither one that expects from a minority small organization more than is reasonable-- but a disciplined assessment of what can be effectively *workable* over the long-term, disassociated from politics or personalities. The community expects that tough questions be asked and tough answers finally be provided concerning the Plaza's true viability. They expect the City to provide leadership in setting a clear path out of the current impasse and to "step up" with inventive approaches to honor the promise of its investment. At the same time, many expressed their expectation that any current or future Plaza operator be willing to assess its own competencies more realistically.
7. **The community recognizes that the prevailing economic conditions in the City of San Jose and the circumstances surrounding the Plaza in 2008 are substantially different than those nine years ago when the Plaza first opened.** The 1990s are widely recognized by art experts and community members alike as an era of cultural facilities building "frenzy." The community recognizes that today the City faces diminishing public coffers and increased demands for services. In addition, the ups and downs in the Plaza management have resulted in a loss of public confidence over its leadership and future prospects. Some people in the community are prompt to cite San Francisco as an example of higher public support for art organizations. But the tax bases that generate funding for the arts in each city --the hotel tax--are widely divergent. The total "hotel tax" collected by San Jose in any given year is approximately \$13 million; in San Francisco it is reliably above \$100 million. Each city has distinct policies, needs, and priorities that guide how the hotel tax is allocated. The arts are beneficiaries of the hotel tax in both cities, but the pools of revenue are different. Nonetheless, there is a strong sentiment in the community that San Jose can do better in terms of supporting its cultural facilities and organizations and that at some point long-term strategies for increasing the resources devoted to this sector would need to be explored.

#### **Local Assets, Vision, Uses, and Identity**

1. **The community's overwhelming consensus is that the Plaza's core identity and optimal use is as a cultural center serving the community and not as a regional arts venue.** In the community's view, focusing the Plaza's core programs in community-building activities at the local level does not discount striving for artistic excellence or holding aspirations for a larger regional impact on audiences; but these are clearly envisioned as secondary effects achieved over time and through select extraordinary events --not as the driving programmatic engine and vision for the facility.

One practical way to sort out which "community" is at the center of any discussion about "community," is to think of communities in terms of concentric circles: expanding from a core to

outer layers. The circles expand from very specific to very broad memberships. This is why sometimes the term “communities of meaning” is employed by market and public opinions experts to bracket populations they are interested in reaching. In the end, what matters most about defining a community is the level of direct symbolic investment that people make in things that matter to them.

Given this framework, who is then “the community” implicated in the optimal use of the Mexican Heritage Plaza? To answer that question, best practices would advise first pinpointing the “community of meaning” from which the idea of the Plaza originates. In other words:

- What community is identified in the name and mission of the organization?
- What community sees in the realization of this project and this organization something especially “meaningful” to their sense of belonging?

Once identified, this will be the bull’s eye –the community that provides the *rationale* for existence of this facility. It does not in any way exclude other communities, but it has an originating core that gives it a unique identity and “flavor.”

Secondly, this being a physical facility that embodies (by name and intention) the aspirations of that core originating community, best practices would advise pinpointing the geographical location in which this facility has been located. One would ask, was this location chosen simply because it was the cheapest real estate at the time with no additional significance to the community of meaning propelling the project forward?

An organization or business would be ill-advised to define any community it is trying to reach starting from the outer circles and moving inwards. Such a reversal of order is simply not how market and audience development studies unfold, how entertainment promoters think, or how cultural organizations achieve recognition and programmatic clarity.

2. **The community clearly understands that a “cultural center” is not the same as a “community center.”** The community values the social, recreational, and direct human services provided by the City’s multiple *community centers*. It is welcoming of two new such centers (Mayfair and Roosevelt) being built in near proximity to the Plaza, but understands the Plaza’s mission distinctly from these facilities. The community does not wish for the Plaza to become a flea market, nor a facility that offers boxing and other sports, nor a senior center, nor a car dealership, nor a job training school. However, there is also a clear consensus that within the expansive framework of an art-culture continuum, there is ample room for programs that engage, interpret, and address any of these elements of community life (seniors, youth, sports, cars) in synergy with ideas not limited to traditional “art” metrics only.
3. **An operational model of the Plaza as a self-supporting performance /presenting venue primarily oriented to booking commercial entertainment (even Latino culturally-specific events) is not economically viable.** The current operator of the Plaza explored the possibilities of this model by producing a series of concerts at the Plaza over the last two years in conjunction with a highly experienced and regarded concert production firm. Attendance at these concerts varied, but in general they attracted good numbers. Even so, the economics of these productions proved to be untenable. The over-saturation of entertainment venues in the Bay Area, when combined with the costliness of booking headliner artists, and taking into consideration the size

of the Plaza's venues, makes this model impractical, risky, and ultimately inconsistent with community aspirations.

For example, a sampling of Latino entertainment taken at random during the week of August 8-14, 2007 from announcements in the Metro Weekly is very instructive to gauge these points. This week was chosen because on August 11, 2007 the MHC presented the salsa/Latin funk musical group Tortilla Soup at the Plaza (a program produced in partnership with Another Planet Entertainment). The same evening of their presentation, Conjunto Primavera headed a first-class line up of Mexican regional music groups at the SJ Convention Center, presented by The Marquez Brothers/El Mexicano. That same Friday and Saturday, the Original Latin Kings of Comedy were performing at the Improv in downtown San Jose. A week later, San Jose's Music in the Park, featured the Grupo Fantasma, another Latin funk/salsa outfit (at a free concert) and the Metro featured a color advertisement for a show to take place Oct 5<sup>th</sup> featuring Tortilla Soup again, this time with headliner Little Joe. A private promoter (Delilah Presents) was the organizer of this event at the Wyndham Hotel.

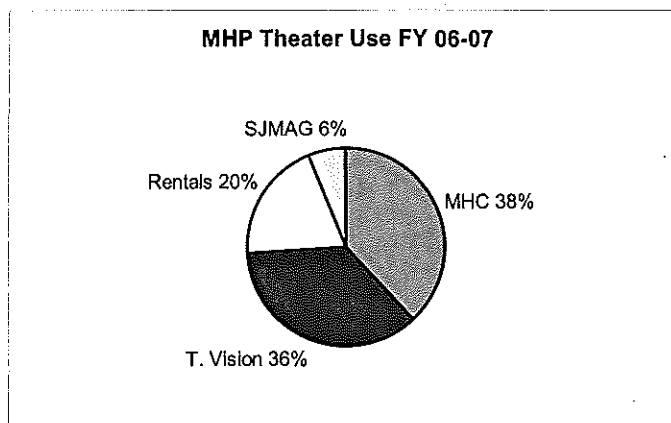
4. **The community's preferred use of the Plaza is as a site for participatory artistic/cultural endeavors such as classes, workshops, civic celebrations, social gatherings, community meetings, and long-term curatorial initiatives that collect and interpret the local community's heritage and social history.** The community understands and values a "presenting" component at the Plaza (concerts, exhibits, lectures) but overwhelmingly perceives high-profile events as subordinate to the need to animate the Plaza on an ongoing basis through smaller-scale, predictable, and locally-grounded program offerings that serve children, youth, and families.
5. **There is a strong desire in the community to see dance and music classes re-instituted at the Plaza.** A few years ago, the MHC organization acquired the long-established folkloric dance troupe Los Lupeños. Los Lupeños have widespread branding and a high reputation in the community as San José's quintessential Mexican-heritage programmers and instructors. Many in the community wish to see the previous Lupeños-run "Escuela" (folk dance and music school) revived at the Plaza; many struggle to understand why the school is not operational today. Similarly, there is a widespread desire in the community to expand and bring back to the Plaza many of the Mariachi Youth Education programs that now are offered off-site at local schools. There are many extraordinary Mariachi-instruction programs and teaching organizations that can provide guidance, ideas, and peer support to a Plaza operator to take steps to establish a music program in site. In addition, the Mariachi education program of the MHC organization already counts with excellent and knowledgeable staff that can assist in any strategic planning towards this end.
6. **The community values the existence of a residency art program (RAP) at the Plaza; the great majority of specific "branding" the Plaza has today is associated to RAP activities (Teatro Vision, San Jose Minority Artists Guild, and until recently Los Lupeños which now are part of the MHC organization).** There is a widespread understanding in the community that a residency program involves more than a tenant arrangement. Many in the community associated the RAP program to the idea of incubation (perhaps because at the time that the Plaza opened the City was running one of the most successful "art incubation" programs in the country at the Montgomery Theater and the three organizations selected to "move" to the Plaza had to be persuaded to relocate their programs there). The community largely recognizes that "below-market" rental rates is one of the incentives used to assist incubation, but many expressed concern about the arguments advanced by the MHC that this benefit has been offered to Teatro

Vision and SJMAG at the expense of the Plaza's financial viability. The community strongly believes the program ought to be beneficial both to resident partners and the host operator of the Plaza. The community favors continuing a RAP program on terms that emphasize the incubation benefit to these organizations –that is, in terms that can truly allow the RAPs to grow audiences and develop new works.

There is a great sense of discomfort among the community over the contentious relationship between the Plaza operator and the RAPs. The community believes that if the Consultants find evidence that the RAPs represent an unfair burden to the Plaza operator, the City should act to assist financially both the resident partners and the Plaza operator. But as the financial analysis by Strategic Philanthropy Advisors, LLC has demonstrated, in fact the RAPs have not been a burden on the Plaza operator in the manner in which has been described (see a more detailed discussion on this finding in pages 28-29 below).

Another topic that has been amply discussed in the last two years is the fact that the RAPs occupy a large percentage of the best dates available for rentals at the Theater and the Pavillion, therefore hampering the ability of the Plaza to generate income by attracting higher-paying customers. In our findings, however, this argument is *non sequitur* because according to the protocols set in place by the agreement between RAPs and the Plaza, the Plaza operator controls the calendar and has the ability to negotiate season scheduling at least a year in advance.

In addition, in an analysis of data provided by the Plaza's Rental department for the last two fiscal years we found an element other than the RAPs' booking of space that impacts the availability of free dates at the Theater and the Pavillion: the MHC itself is the largest user of dates in the Theater (38% last year). This 38% of Theater use is not comprised of income-generating activities, but in most instances of rehearsal time for the MHC's dance/music company Los Lupeños. Rehearsal is a fundamental need of a dance/music group and as stated in an earlier finding, the community has expressed their support for expanding both the role and presence of Los Lupeños at the Plaza. But in terms of the Plaza operator's need to free space in the Theater to make available additional rental dates, this finding reveals that the problem is more complex and more organically connected to the Plaza's inherent space challenges than simply a RAP-derived problem. The chart below illustrates the distribution of Theater use:<sup>1</sup>



<sup>1</sup> The Theater was used 68% of all available dates during FY 06-07

The distribution of uses at the Pavillion is similarly unfavorable to increased rental income opportunities. The RAPs' use of the Pavillion is minimal. The Lupeños use the Pavillion for rehearsal when the Theater is not available. Last fiscal year, Lupeños rehearsals represented 34% of the total Pavillion use. Since Lupeños are a company of the Plaza operator, any use of the Pavillion that may presumably prevent additional income for the Plaza is a factor under the control of the Plaza's operator.

7. **The Mariachi Festival is considered by the great majority of community members a high quality and high-visibility event, but many expressed concern that it is largely disconnected from the Plaza.** Many in the community believe that given the Festival's growth and increasing commercial focus it is appropriate to consider whether it should be an entirely distinct project with its own staff, financing, and accounting. The majority of Festival activities, with the exception of a couple of educational events, take place in venues other than the facility. Many in the community are concerned that the distance between the Festival's location and the Plaza's physical facility represents a lost opportunity for growing a "heritage music education" program at the Plaza year-round. The community values strongly the Youth and Pee Wee Mariachi program; the Youth program's in-school component has grown and excelled under the leadership of highly competent music/dance staff. The demand for Pee Wee classes is substantial. Many in the community are distressed that these programs are not offered at the Plaza.
8. **There is widespread consensus among the community on the importance of making changes to the Plaza's physical set-up to accommodate new rehearsal and instruction spaces that can facilitate folkloric music and dance instruction.** The community expressed strong consensus over the need to retrofit certain areas of the Plaza to provide rehearsal and instruction space for folkloric dance and music by Lupeños and other community-based artistic/social organizations. One of the areas frequently mentioned as a potential candidate for a dance-rehearsal studio is the gallery. The reason for this is that in the original facility design the gallery was conceived as a dance studio and as such the floor of that area is wood-sprung as needed for dance instruction. It is not clear why the MHC organization decided to change the use of the dance studio to a gallery shortly before the Plaza opened. Since not many spaces in San Jose are professionally equipped for dance and the need for rehearsal space in San Jose has been amply documented, the community feels that the use should maximize the design. At the same time, many people in the community appreciate the presence of a gallery space and the relationship the Plaza has had with the Smithsonian Institution. Many have enjoyed the exhibits they have seen at the Plaza. However, the visual arts program has been sporadic and the gallery is cited as the most under-utilized area in the entire compound. Some community members and art professionals noted that the lobby area of the Theater (already utilized for this purpose) could provide an alternative, although considerably more modest, space for visual art exhibits.
9. **The overwhelming majority of people we talked to responded negatively to the Plaza operator's characterization of the Plaza's artistic aspirations as a "Latino Lincoln Center."** While the current Plaza operator has occasionally stated that they, too, see the Plaza as a "Latino cultural center that is community-based," a great deal of its artistic vision for the Plaza has been elaborated around the concept of a Latino Lincoln Center. While most people in the community expressed appreciation for the intentions to make something special of the Plaza, we also heard repeatedly apprehension over the perceived disconnect of a grand vision from a base and rationale of community relevance. While on the surface the community understands that the phrase may seem an appropriate aspiration that sets a high bar for the Plaza's future, our study revealed that overwhelmingly people find the expression clichéd, inflated, impractical, and out of

touch with the core intent for which the Plaza was built. Some stakeholders with more extensive knowledge of the arts field found the analogy confusing in several other ways : the Lincoln Center in NYC is organized precisely around the presence of 12 Resident Partners; the Lincoln Center is widely known for its extraordinary commitment to children's and family programs and for being a catalyst and leader in the revitalization of their neighborhood; the lead Resident at the Lincoln Center is focused exclusively on the management of the facility for the benefit of the other Resident partners; lastly, only a small portion of the Lincoln Center's annual operating budget derives from public sources –private contributions and earned revenue are the major sources of revenue. It is not clear whether these elements form part of the Plaza operator's use of the phrase.

10. **The Plaza's core audience demographics are overwhelmingly local and Mexican/Mexican-American.** Many in the community believe that the Plaza's strength and core attractiveness is tied less to a broad Hispanic/Latino identity and more to an specifically Mexican and local character, particularly relevant in connection to the activist Mexican-American/Chicano social history of San Jose and . Many in the community identified other artistic/social organizations in San Jose as serving niches within the Hispanic/Latino community distinct from the unique Mexicanist and Mexican-American niche they perceive the Plaza can best serve (for example, many mentioned MACLA as having a youth, hip, and contemporary arts niche and the Willow Street area/Sacred Heart Church as serving primarily recent Spanish-speaking immigrants). Many described the Plaza's Eastside's community as a more layered, multi-generational, bi-cultural ethnic community.

The importance of local roots and identity factors was demonstrated more recently in the distribution of ticket sales for the 2006 Juan Gabriel Concert, the pinnacle of any previous Mariachi Festival up to that point. According to records of tickets sold shared with the Consultants by the concert producer (Another Planet Entertainment), the largest single block of ticket buyers (amounting to 8.01% of the total gross income of the concert) came from the "95122" zip code in East San Jose. Altogether, among the top 10 blocks of ticket buyers (100 tickets or more), San Jose residents in East side zip codes "95122," "95123" and "95127" represented close to 13% of total gross receipts of total revenues. Undeniably, the 2006 Juan Gabriel concert drew an impressive regional audience as well. But in essence, even a superficial analysis of ticket-buyer demographics confirms one of the foundational tenets of the cultural industry: *entertainment draw is always local*. When concert promoters in the Bay area book events, their assumption is always that the bulk of their ticket sales will come from a local audience base. Whether one talks to major corporate sponsors or philanthropic entities, the response is consistent: decisions to fund a program or an organization are based on assessments of local impact. This is especially true in recent years, as many corporations have decentralized their marketing and community support budgets and are only able to draw funds to support nonprofit organizations utilizing locally allocated funds.

11. **Mayfair and East San Jose neighborhoods are themselves deep wells of Mexican tradition, pride, and cultural activity—both on formal and informal levels—and can provide direction to programming of high quality and high relevance.** While the community enthusiastically expresses appreciation for various specific, single-case programs that have taken place at the Plaza in the last few years they also largely perceive the Plaza's overall curatorial vision as disjointed, ad-hoc, sporadic, inconsistent, and largely reactive to the whims of financial sponsorships external to the community, instead of proactive, deliberate, consistent, and grounded in local needs and forms of expressions. The community rates very highly many recent

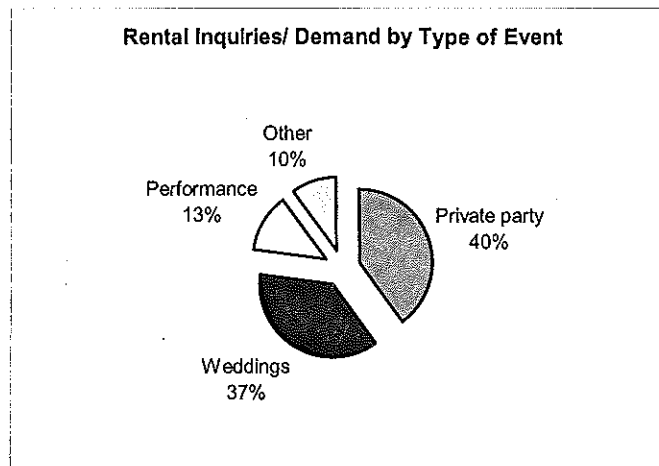
programs at the Plaza; in addition to the plays staged by Teatro Vision, among the events most frequently mentioned were the presentation of a Mexican classical pianist in collaboration with the Steinway Society, the Martin Ramirez exhibit in collaboration with the San Jose Museum of Art, the Mexican Independence "Grito" celebrations produced by the Mexican Consulate, the kick-off Gala for the 2007 San Jose Jazz Festival, and the MACSA anniversary event. But aside from select special events, the community remarked on the lack of a coherent performance season or the elaboration of a master Plaza calendar around key Mexican civic dates (*"el calendario civico-cultural Mexicano"*). In addition, the community noted their lack of awareness about any long-range plans to develop programmatic and curatorial constructs that would collect and interpret the local assets and distinctive character and history of San Jose's Mexican and Mexican-American community and neighborhoods and that would deepen in substantial and consistent ways a matrix of "heritage education."

In contrast to these ad-hoc practices, best practices at highly successful organizations demonstrate that when artistic seasons are planned and curated in ways that are coherent to the public (that is, thematically organized, tightly consistent with niche strengths, fresh, and tapping into the community's reservoir of aesthetic materials), funders also respond positively. Many in the community expressed concern that the Plaza operator seems very knowledgeable about these best practices in regards to the planning, marketing, and funding of the Mariachi Festival but has not demonstrated the same level of skill in organizing a focused season of programs for the Plaza.

12. **The community's confusion about the Plaza's mission is well founded; in the course of ten years, the stated mission has changed both in spirit and text.** The Articles of Incorporation of the MHC organization state that in addition to developing, promoting, and advancing the Mexican Heritage of the community of the city of San Jose and Santa Clara Valley, the organization also would "sponsor and/or administer economic development programs, community development programs, and educational programs." This idea stuck in the community's mind; even though no substantial economic development project has ever been undertaken by the Plaza operator in the last nine years, many in the community today still refer to the Plaza as an economic development anchor for the Eastside. From 2001 to 2006 every single Audited Financial Statement listed the "economic development" function as a central element of the nonprofit's mission. The Plaza's Strategic Plan 1998-2003 stated that once built, the Plaza would "be a place for children, young adults, and families to learn about history, cultural heritage and arts. It will also be a place to build community leadership...and invest in our youth." This language reinforced the community's aspirations for a community-based cultural center. In 2003, the MHC modified its mission; this time, the focus was less on family and youth community programming and more towards the presenting functions of a regional and national center (The mission of the Mexican Heritage Plaza is to affirm, celebrate and preserve the rich cultural heritage of the Mexican Community and showcase multicultural arts within the region and nationally). However, until December 2007, the By-laws and Articles of Incorporation of the MHC had not been amended to reflect this substantive change in focus and direction.
13. **The community values the rental function of the Plaza, especially for weddings, quinceañeras, corporate events, and other community-based celebrations and social gatherings.** Our research indicates that the Plaza's pricing structure for large events is largely competitive with similar facilities in the South Bay. However, the perception among the public that the Plaza is "too expensive" for smaller-scale programs and community events is widespread. In this sense, the Plaza's pricing structure merits a deeper analysis to determine if an even more accessible tier-system (other than the existing for-profit, non-profit structure) can be implemented. Some

organizations adopt the policy of reserving a number of select dates annually for “community access.” In addition, despite having very professional staff, the Plaza endures a persistent reputation for inadequate customer service. Many in the community expressed their desire to see the Plaza achieve a balance between income-producing rentals and policies and pricing more accommodating to community needs and programming. There is a widespread sense among the community that these two goals can be compatible.

Despite these issues, the Plaza’s facility rentals operations have been a reliable source of annual revenue. Demand for community use is also healthy. For example, we conducted a random analysis of the rental inquiries received by the Plaza’s Rentals office for a 30-day period in August 2007. The following chart shows the community’s leading interest on any given month by type of event:



In a 30-day period, the Rentals office had 30 inquiries. A total of 5 (or 18%) of these inquiries resulted in confirmed bookings. Only in 2 instances (7%), were the requested dates not available. Most people who inquired did so by phone (63%); 19% inquired via email and 18% by walk-in.

14. Despite repeated references about the “fortress” design of the Plaza, many in the community expressed strong support for and enjoyment of the overall Plaza design and its amenities. Nonetheless, there is consensus that select architectural and cosmetic improvements to the facility are needed to increase the *perception* of community access, participation, and buy-in. Many people in the community like the Plaza design because it offers privacy and safety from the busy street intersections and resembles some of the important Plazas in Mexico (which are secluded). On the other hand, few disagreed that there is a prevailing perception among some segments of the community that the Plaza’s doorless and windowless stucco walls rising up to four stories in height, heavy iron gates, bare landscaping, and minimal lighting signify for many separation and enclosure. For some, the profile of the Plaza in the parking areas flanking it on the east and south separate the Plaza from its neighbors—especially the elementary school and the senior housing complex—much like a big box retail store available only by automobile and unconcerned with pedestrians. Many in the community mentioned their desire to see the Redevelopment Agency conduct a thorough review of the Plaza’s architectural elements such as gating, fencing, signage, and lighting as priority considerations for future physical modifications. The community also expressed a strong desire to explore the potential of the facility and the Mayfair neighborhood as heritage sites that can be interpreted and signaled through public art

and cultural tourism efforts. Many in the community expressed disappointment that discussions of such enhancements had taken place for many years without additional follow up.

15. **There is an overwhelming sense in the community that the completion of the economic redevelopment of the Alum Rock and King corridor is intrinsically connected to the long-term sustainability of the Plaza.** Many expressed concerned that the City and the Redevelopment Agency had not carried through plans for the Alum Rock/King corridor in the same way it had done for the Story/King area, which most consider a resounding success. Many art professionals believe that the "destination" aspiration of the Plaza cannot be materialized unless the larger area is also developed. The community overwhelmingly feels that although the Plaza is a cultural entity, it is fitting that its leadership also be active as part of an Eastside coalition to advance the development of the Alum Rock Business District and Strong Neighborhood Initiative agendas in more definitive and substantial ways.
16. **There is a strong desire by many people in the community to be involved in a process for designing anew or re-tooling the operational and organizational model for the Plaza and to actively contribute to multiple aspects of the Plaza's fundraising and strategic planning.** The community has many creative ideas to support a new organizational model of operation for the Plaza. Many are willing and eager to roll-up their sleeves if the organizational structure of the Plaza can be modified to incorporate a more participatory ethic. Among the ideas people shared were the creation of a Community Task Force or an Advisory Board that can work alongside the City and a Plaza operator to assist in long-term strategic and program planning; the creation of a specific fundraising entity for the Plaza supplemental to a Board of Directors (a "Friends of the Plaza" type-entity or an auxiliary Heritage Circle composed of community donors); or the creation of numerous "*Patronatos*" (Mexican stewardship societies) in charge of planning and fundraising for annual programs such as the Day of the Dead, Las Posadas, Día del Niño, or Fiestas Patrias.
17. **A review of cultural organizations and facilities comparable to the Plaza in six cities in California, Texas, and New Mexico reveals that despite a wide range of diversity in structure and funding, each organization's success can be measured in direct proportion to how it meets local needs, activates local resources, and clearly identifies its core constituencies and artistic niches.** Our research affirms that intention, scale, and focus are the staples of wellbeing in the nonprofit arts world. In every case, the most successful models of organizational sustainability are those that have broad-based partnerships, mixed public/private funding, and a coherent and disciplined focus that deepens its expertise in a given niche (music education or alternative new works or pan-Latino performance arts). The most successful organizations describe their managerial practices as disciplined, measured, focused, steady, and unequivocally connected to community expectations and benchmarks; the kind of practice that the director of the Yerba Buena Center in San Francisco described as the "intangible formula that alerts the community that it has made a good trade off for the public investment it makes into these kinds of facilities."

#### **Financial Sustainability**

1. **The community overwhelmingly believes that the current model that blends responsibilities for maintaining the Plaza facility as well as programming it into one single arts entity/operator is not working.** Many in the community express concern that the Plaza operator's limited capacity and expertise in fundraising and facility management have resulted in an overextended organization called to "wear many hats." In general, this is true of many nonprofits; most

organizations engage in multiple roles. But there is a strong concern in the community about the Plaza operator's seeming inability to build competencies gradually over the last ten years. The great majority of people interviewed urged a fundamental reconsideration of how distinct functions are assigned between the City and a Plaza operator. Fundamentally, our findings distinguish between three separate functions: (a) maintenance and upkeep of the physical plant; (b) coordinating and managing the various uses and renters; and (c) programming the artistic and cultural content and events that take place at the Plaza.

2. **There is overwhelming community consensus that the Plaza should be treated as a community-based resource/facility much as the City treats libraries, neighborhood, and youth centers.** The majority of community members strongly favor the City assuming *full and direct responsibility for maintenance and facility upkeep* of the Plaza. There is a widespread consensus in the community that the optimal arrangement is one in which the City pays and oversees the Operation & Maintenance costs and needs (O&M) for the facility directly, not by transmitting such funds through a third party operator. The community strongly believes that wrangling over whether a community group can meet at the Plaza based on whether they will hike or not the PG&E bill is unacceptable; like City libraries, the Plaza should have sensible hours of operations and protocols for use, but deploying O&M costs in order to defer or prevent community use is largely considered by the community an inappropriate practice in a City owned facility. In an agreement with a nonprofit operator these direct O&M expenses paid by the City will constitute a non-cash subsidy to the facility's operator.
3. **Despite noting a range of opinions as to what expenses ought to be considered eligible under Operating and Maintenance costs, there is widespread agreement about a community-standard definition of O&M.** There is a clear consensus among art and other professionals in the community that O&M refers to basic recurrent expenses associated with the upkeep of the physical plant and the "Basic Staff" involved directly in such physical-facility service duties. Community members knowledgeable in facility and organizational management clearly exclude from O&M salaries and expenses related to programming, fundraising, marketing, and administration. Furthermore, our study reveals that the community-standard for O&M is threefold: any expense necessary to (1) *open the facility's doors* (security, alarm, insurance, nighttime coordinator, etc.); (2) *keep the facility safe and clean* (service contracts for elevator, HVAC, janitorial service, etc.); (3) *make the facility hospitable and accessible* (maintenance supplies, all utilities, expertise for using special lights and sound equipment, etc.).
4. **A strong majority of community stakeholders opposes the City taking over programming responsibilities for the Plaza.** While the community overwhelmingly supports the City's taking over the direct physical facility maintenance for the Plaza, it emphatically believes programming, identity, and coordination belongs more fittingly with a community-based third party nonprofit operator. The community believes that the City has capable personnel who know how to care for public buildings and can accomplish economies of scale and efficiency curves according to the City's own financial priorities. Nonprofit operators, on the other hand, are more likely to be able to recruit staff with specific expertise in Mexican-heritage who can work more flexibly with community members and funding entities to curate and implement an identity for the Plaza.
5. **There is a clear and resounding sense of Quid Pro Quo ("something for something") in the community concerning taxpayer's investments in the Plaza.** The community strongly believes that the more City dollars that go into the operations of the Plaza, the more community "return on investment" ought to be delivered. Many strongly urged that any further "capitalization" of

the Plaza must take place within the parameters of a service-oriented, community-based facility with clear deliverables of community relevance and programming. The community strongly believes that the Plaza belongs to the community and insofar as it was built largely with City funds, the Plaza should respond with all reasonable means to community expectations for accessibility, locally relevant programming, and uses consistent with celebrating the cultural heritage of San José's Mexican and Mexican-American communities.

6. The analysis of O&M costs by Strategic Philanthropy Advisors, LLC has determined that depending on what types of expenses are considered part of "facility maintenance and operations," the City's annual O&M subsidy to the Plaza in the last two years has covered between 83% and 86% of all costs (if basic facility-related staff are included) and between 137% and 152% of all costs if staff is excluded. In their research and analysis (presented concurrently with this Report) Strategic Philanthropy Advisors, LLC determined that the City subsidy to the Plaza operator, which totaled \$428,265 in FY 2003, \$413,783 in FY 2004-2006, and \$588,783 in FY 2007 (including a one-time special additional payment of \$175,000) was *more than adequate* to cover the operations- and maintenance-related costs for the facility if only material expenses of facility maintenance were considered as "O&M costs" and staff (even those involved in facility maintenance and operations) were excluded. In fact, when *only* facility material expenses are considered as part of O&M, the City's contribution has covered 100% of all facility maintenance expenses and has in addition provided a surplus that the Plaza operator has been able to use to meet other operational expenses. Different scenarios of the City's contribution to the Plaza's O&M costs emerge if and when the salary and benefits of facility-related personnel, and the salaries and benefits of the Rentals office staff, are added.

The following chart illustrates three definitions of O&M expenses vis-à-vis City O&M support (derived from the report by Strategic Philanthropy Advisors, LLC, pages 10 and 35):

	O&M Expenses: NO STAFF	% City Subsidy*	O&M Expenses: BASIC FACILITY STAFF	% City Subsidy*	O&M Expenses: BASIC FACILITY STAFF + RENTALS STAFF	% City Subsidy*
2006	300,421	137%	495,938	83%	522,408	79%
2007	272,628	152%	479,626	86%	535,487	77%

\*Assumes only the annual amount of \$413,783 as specified in the O&M Agreement with the City (in 2007 and additional O&M payment of \$175,000 was provided)

The question that has concerned the Plaza operator and resonated widely with the community is: should the City cover 100% of O&M expenses? The community's answer is yes; but the majority of people in the community, as indicated in an earlier finding, believe that there's a limit as to what should be legitimately considered O&M costs. For most people in the community, O&M costs should include only two things: material facility expenses (PG&E, Water, Alarm, Service Contracts to Elevators, etc., maintenance of floors, cleaning, technical upkeep of specialized areas like gallery lighting and/or theater sound systems, etc.) AND the costs of staff involved in performing the work of these specifically facility-related tasks.

Working from this definition as a base, the City's O&M support for the Plaza can be estimated to have fallen short by approximately between \$23,000 and \$82,000 at different points during the last five years. But because in 2007 the City gave the Plaza operator an additional payment of \$175,000 that resulted in a surplus of \$109,000 for that fiscal year, the findings by Strategic Philanthropy Advisors, LLC determined that cumulatively over the last five years the City's shortage of support for the Plaza's O&M has amounted to \$132,000. (See Strategic Philanthropy Advisors, LLC's Report page 10).

Yet another definition of what constitutes O&M expenses would consider as part of "facility maintenance and operations" the staff employed to rent the Plaza to community users and RAPs. At least one of these positions also functions as Special Events Coordinator for rental events. Are these legitimate O&M expenses according to the consensus definition we found among community members? No. But, are they legitimate facility expenses anyways, even if the community could not agree on this point? Maybe. We understand how someone could make a case that Rentals staff are part of the function of making the facility available to the community. One factor impacts the community's reluctance to consider Rentals Staff as part of O&M expenses: these positions generate revenues that are directly attributable to their function and as such, many people believe that, at a minimum, the revenues should cover the costs of employing the people who generate the revenue. Ostensibly, some in the community would ask: shouldn't the revenues from Rentals be considered part of the total revenues (added to the City's contribution) to pay for facility maintenance and operations? The answer is, yes; this too, is a rational and sensible understanding of O&M. We found many people in the community who adhere to this point of view.

Below is a chart summarizing how **total Plaza O&M expenses** (inclusive of material expenses, Basic Staff and Rentals staff) look when **total O&M revenues** (inclusive of Rentals revenue) are considered.

	FYE 2006	FYE 2007
City O&M Subsidy Per Agreement	413,783	413,783
Facilities Rental +RAP Rent Revenues	320,476	286,017
City One-Time Allocation		175,000
<b>Total O&amp;M Revenues</b>	<b>734,259</b>	<b>874,800</b>

	FYE 2006	FYE 2007
Consultant-Calculated O&M Expenses	300,421	272,628
Basic Facility Staff + Rentals Staff Costs	221,987	262,859
<b>Total O&amp;M Expenses</b>	<b>522,408</b>	<b>535,487</b>

<b>Difference (-) (+)</b>		
	211,851	339,313

<b>Difference (-) (+) without one-time City allocation in FYE 07</b>		
	211,851	164,313

Working from a definition of O&M expenses that considers Rentals revenue as much legitimate O&M revenue as the City's O&M subsidy, then it can be stated (as is the case when *only* City O&M subsidy is considered to pay *only* for material O&M expenses and no staff) that: *the City's contribution has covered 100% of all facility maintenance expenses and has, in combination with the income produced by Facility Rentals, provided a surplus that the Plaza operator has been able to use to meet other operational expenses at its discretion.*

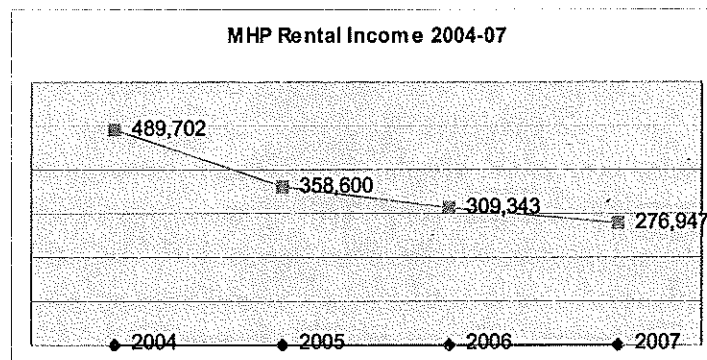
Yet another scenario that could be considered when discussing facility O&M expenses is discussed by Strategic Philanthropy Advisors, LLC in their report. This concerns the possibility that a Plaza operator may allocate administrative organizational expenses as an indirect expenses allocated to all "programs" of the operator (with "Plaza Maintenance and Operations" being in fact considered a "program" of the organization). This allocation of indirect expenses would be acceptable under the standards of best practices in nonprofit management, but as the report by Strategic Philanthropy Advisors, LLC indicates (see section on Scenario 3) it was not possible at this time based on the budgeting and accounting methods employed by the current Plaza operator to make a determination as to what those costs may have been over the last five years. If indirect expenses were determined and allocated according to best practices in the nonprofit field, then, presumably the City's coverage of O&M expenses could be less than has been determined.

7. **The Operating Agreements the City of San Jose has with the San Jose Museum of Art and the Washington Youth Center as nonprofit facility operators represent potential models that can be applied to the Plaza.** The City agreement with these entities is two-pronged: the City pays directly the expenses associated with facility maintenance (inclusive of all utilities, service contracts, janitorial staff and landscaping) and in addition makes a cash contribution (referred to as an O&M subsidy although a more appropriate name would be an "Operating Subsidy") to be used by the organization for general operating expenses at their discretion.
8. **In determining O&M agreements with nonprofit facility operators, the City has been approached on a facility-by-facility basis over time with each agreement being negotiated with the operator under different scenarios.** There are no clear guidelines in existence for what kind of approach (by percentage of total budget, deliverables, square footage, or special considerations) the City uses for determining what level of support it would grant to different operators. This has resulted in an uneven scenario wherein some organizations have all their facility maintenance expenses covered (San Jose Museum of Art) while others pay the greater bulk of their own expenses with only a nominal contribution by the City (Children's Discovery Museum). The policy of subsidizing cultural facilities has only applied to City-owned facilities; but many other cultural organizations (Quilt Museum, ICA, Taiko, American Musical Theater) run their own facilities and make them frequently accessible to wider community uses without the benefit of City subsidies. Many in the community strongly voiced their desire to see the City study the current policy arrangements to determine more rationalized and consistent measures in the future.
9. **While on the one hand, the finding from Strategic Philanthropy Advisors, LLC concerning the City's O&M financial contribution to the Plaza operator leave room for interpretation based on varying definitions of what constitutes O&M, on the other hand, the level of support that the City *has* provided represents a form of subsidized O&M support for *all* of the activities that take place at the Plaza, including the RAPs.** This means that the Resident Art Partners have not been a financial burden on the Plaza or the MHC organization in the way it has been

described. In fact, the finding by Strategic Philanthropy Advisors, LLC concerning the ratio of City subsidy to the Plaza means that all activities that take place at the Plaza in any given year (approximately 280 separate units of program), including MHC's own programs and the programs of Teatro Vision and San Jose Multicultural Artists Guild, are in effect already subsidized by the City --- as far as cost recovery of utilities and basic facility-related staff expenses are concerned--- at the same ratio in which the Plaza's overall O&M expenses are covered. That is, somewhere between 83% and 152% in the last two years.

Is the revenue that the Plaza operator receives from the RAPs enough to cover the difference in those years when there was a gap? In 2005, yes; RAP revenues more than covered a gap of approximately \$23,000. In other years, the gap has not been covered by RAP income alone; but again, if RAP income is considered along with *all Rentals income* as revenue directed towards O&M expenses, then the answer is that the RAPs have provided *enough* to contribute to the closing of the gap each year. While this analysis could be approached from many angles, one thing is certain: the RAPs are only a small part of an overall strategy of facility income-generation, and while there may be some room to make adjustments to their share of the expenses, the fact is that their presence at the Plaza has not unduly burdened the Plaza operator to the extent that has been reported. Over the last *four years*, the Plaza operator has received approximately \$135,000 in Theater and Pavillion rental fees from Teatro Vision and SJMAG (more if nominal office rents are counted). The findings of Strategic Philanthropy Advisors indicate that the cumulative amount of the City's O&M shortage for the Plaza (material expenses + Basic Staff) across the last *five years* has been \$132,000. In fact, this means that the RAPs covered the gap entirely and still provided the Plaza operator with a surplus.

10. **The Rentals Program at the Plaza is robust and consistent; it has reliably generated income in the average amount of \$325,000 per year over the last four years; the Rental program has room to grow and expand both as income-producing and as a community access program.** Each year, anywhere between 60 and 100 users other than MHC, Lupeños, or RAPs rent the Plaza; close to 90% of these Renters are not-for-profit entities, thus lending little credibility to the perception that the Plaza is utterly unaffordable. Nonetheless, these Rentals are mostly concentrated in the Theater and Pavillion (larger units of the Plaza). The Pavillion holds the largest potential for additional rental income. The Pavillion had a 60% vacancy rate last year; the Theater only 32%. We note that despite the increased efforts to generate income for the Plaza, our research uncovered a downward trend in rental income over the last four years. We were not able to generate an explanation for this phenomenon.



A widespread demand for access to the Plaza by users interested in smaller events/spaces or occasional special community events continue to circulate among the community.

11. **The calculation of Plaza maintenance expenses using standard, flat, across-the-board rates and formulas per square foot is not reliable; these methods yield inflated maintenance expenses inconsistent with actual figures.** To supplement the analysis of O&M expenses undertaken by Strategic Philanthropy Advisors, LLC our study applied three additional methods to approximate actual Plaza maintenance expenses. Two of these methods yielded figures dramatically outside the range of *actual* expenses as reported by Plaza operator over the last five years and analyzed by Strategic Philanthropy Advisors, LLC in their report.

For example, according to figures supplied by a well established private real estate development source, the standard formula in the real estate industry in the Bay Area for determining ongoing annualized facility maintenance expenses is approximately \$12 per year per square foot for "retail" uses and \$18 per year per square foot for "high end office" use. Applied to the square footage of all the Plaza interior spaces (80,500 sq.ft), this formula would suggest that O&M expenses for the Plaza on an annual basis would range from \$966,000 to \$1.4 million. The analysis by Strategic Philanthropy Advisors, LLC of historical O&M expenses clearly demonstrates that the actual costs per year are significantly lower.

Another source we used to measure the accuracy of formula applications to the Plaza by square footage was the MHC organization's own Program Budget for "Facility Maintenance" for FYE 07 (which is inclusive of expenses for five facility-related staff positions). In the Plaza operator's own budget estimation, "facilities operations" (as seen in the chart below) are approximately \$438,000.

**FY 07-08 MHC Program Budget for "Facilities Operations"**

All Occupancy Expenses (Utilities, Service Contracts, Supplies, Alarm, Repairs and Preventive Maintenance)	\$ 217,900
Equipment	\$ 3,658
Office Overhead & Misc	\$ 7,100
Facility-Direct Staff Salaries and Wages	\$ 210,018
<b>Total:</b>	<b>\$ 438,676</b>

The City's Department of General Services formula for maintenance presents some problems as well. The City maintenance standards only distinguish between "buildings" and "grounds." The standard for "grounds" is for City parks (green areas). There is no specific provision for parking lots. For this reason, in the estimate provided by General Services to the City Auditor about estimated costs of maintaining the Plaza, parking lots were excluded. However, if one wanted to apply the City standard to determine the cost of maintaining the parking lot at the Plaza one would have no choice but to apply the "grounds" standard. The Plaza's parking lot (external grounds) represents 3 acres out of a total of 5 acres for the entire Plaza compound. The City's standard for outside areas ("grounds") is \$15,000 per year per acre. Based on the City's General Services formula, it would cost \$45,000 to maintain the parking lot annually. Nothing in the Plaza's operator accounting of O&M expenses for the last five years suggests this figure comes anywhere near being factual. Yet if the Plaza's O&M costs were to be determined by application

of square footage, according to City maintenance standards one would have little choice but to allow a \$45,000 credit for maintenance of the parking lot.

For these reasons, our own analysis of estimated O&M costs as well as the analysis undertaken by Strategic Philanthropy Advisors is based only on actual facilities and their historical actual expenses.

12. **Applying an analysis of the actual costs incurred by the City of San Jose in covering the O&M expenses of the San Jose Museum of Art, it is possible to estimate that the costs to the City for absorbing Plaza O&M expenses directly into its General Services budget would be approximately \$340,000 annually.** The City's agreement with the SJ Museum of Art determined that the City would directly provide for the annual facility maintenance expenses (that is, will pay the vendors directly and use the City's General Services own handypersons and janitors to provide the services). These expenses encompass all utilities, 2 FTE staff custodians with benefits, and all service maintenance contracts and supplies. The City's General Services Department has determined that in FY 06-07, actual costs for SJMA's facility expenses were \$330,683 or \$4.23 sq/ft. The SJ Museum of Art is 78,000 sq/ft. The Plaza's interior square footage is 80,500 sq/ft. The total Plaza compound square footage is 221,202 sq/ft; of this, 140,700 sq/ft represent the parking lot and periphery areas, which are excluded from this calculation because the costs for maintaining these areas are sporadic and their upkeep is already included in general service contracts/maintenance supplies.

Based on the Plaza's square footage (interior), and utilizing the actual expenses per square foot of the SJ Museum of Art, it is estimated that the annual cost to the City for maintaining the Plaza would be around \$340,000. As a point of comparison, according to the analysis by Strategic Philanthropy Advisors, LLC the Plaza's total O&M expenses (no staff included) were \$300,421 for FYE 2006 and \$272,628 for FYE 2007 (largely within the ballpark figure of our estimate).

It is worth noting an additional point of interest. An analysis of actual expenses of O&M of the SJ Museum of Art further demonstrates the inadequacy of flat, across-the-board sq/ft formulas. While the City's General Services formula for utilities is \$2.50 per sq/ft, the actual amounts paid in utilities for the SJ Museum of Art represents \$2.01 per sq/ft. In other words, when the City pays utility bills directly, it is able to accomplish close to 20% efficiency curves over a standard formula.

13. **The community has expressed concern over the perceptions of inequality in the way the City supports the Plaza vis-à-vis other cultural facilities in the City. Our findings reveal that contrary to receiving less support than other cultural facilities, the Plaza operator's percentage of City O&M support has been substantially higher than that of other organizations.** The range of support the City provides for nonprofit operators of large as well as small and mid-sized cultural facilities (as either O&M subsidy or Arts Grants) is between approximately 2 and 15 percent of these organizations' total annual operating expenses. The Plaza operator's percentage of City support has been higher: 21.6% in FYE 06 and 28.6% in FYE 07. In the start-up phases of the MHC, where it was undeniably justified, the support was even higher: 36% in FYE 01.

We note, however, that these percentages can be moving targets; only organizations who occupy facilities owned by the City have agreements with the City that include annual O&M subsidies. Several cultural organizations in San Jose own and operate their own facilities without the benefit of a City O&M subsidy. In addition, cultural organizations receive grants from the Office of

Cultural Affairs and some are able to obtain occasional support from other City departments or the Redevelopment Agency. The following chart compares some of the organizations that occupy City-owned facilities:

	Total Annual Operating Expenses FYE 07	City O&M Support	City Contribution as % of Total Operating Expenses
Children's Discovery Museum	\$ 5,500,000	\$ 300,000	5.4%
SJ Museum of Art	\$ 5,324,600	\$ 500,000*	9.4% (or 15.6% see note below)
Tech Museum	\$ 13,767,781	\$ 1,300,000	9.4%
Mexican Heritage Plaza	\$ 1,925,285	\$ 545,878	28.3%

\* In addition, the SJMA receives non-cash O&M support paid directly by the City in the amount of \$ 330,683; combined, the non-cash O&M support and the cash O&M payment represent 15.6% SJMA's total operating expenses.

The following chart shows the range of support the City offers to organizations that do not have O&M Agreements in place, because they do not occupy City-owned facilities.

	Total Annual Operating Expenses FYE 07	City Arts Grant Support*	City Contribution as % of Total Operating Expenses
SJ Quilt Museum	509,000	\$ 35,000	6.9%
Institute of Cont. Art	\$ 561,359	\$ 47,141	8.4%
MACLA	\$ 495,358	\$ 43,000	8.6%
American Musical The	\$15,300,000	\$ 246,000	1.6%
Children's Musical The	\$ 1,500,000	\$ 90,400	6.0%

13. Many nonprofit managers consider "capitalization" business models for nonprofit organizations the ultimate solution to financial woes. The Plaza operator has articulated a diagnosis of the Plaza's financial difficulties based on the lack of adequate capital. But when applied to nonprofit entities, capitalization is a curious term that requires substantial contextualization and adjustment in order to be applicable or useful. Capitalization is somewhat of a chicken-and-egg phenomenon. If an organization has capital it can develop "capacity" which in turn means that it can generate more capital. See for example the self-diagnosis of the Plaza operator as expressed in the MHC Business Plan 2007 (diagram format added):

CORE DIAGNOSIS:  
Structural Financial Deficit

GOAL:  
Recapitalize the Plaza Operator

RATIONALE:  
New Infusion of Cash will build Capacity



More Capacity = Financial Solvency + Program Success

A premise logically leads to a conclusion. A diagnosis leads to a preferred course of treatment. The problem with applying the capitalization business model to the nonprofit environment is precisely that the methods of securing and building capital are a key difference between nonprofits and for profit enterprises.<sup>2</sup> For nonprofits, the costs of production are almost always higher than earned income, so there's no profit margin to siphon over to capital. In other words, the "surplus" that a for profit business would usually generate to re-invest in its own future hardly ever arrives. Mainstream institutions with access to deeper pockets are challenged as any other nonprofit to raise money and stay on track financially, but it is clear that many begin with the advantage of available private capital. For example, there is somewhat of an "urban legend" shared among professional fundraisers about the case of a large American museum that raised at one Board meeting more than \$100 millions that the Museum needed for a major renovation.

Short of large private donations, nonprofit managers seek high return on stock investments, a break-the-roof attendance record, or special appeal campaigns to generate capital. The most modest and disciplined nonprofits try to adhere to strict budgeting practices to generate small surpluses over time and accumulate capital (usually in the form of working reserves). In some cases, nonprofits are able to secure public dollars to capitalize start-up art facilities and organizations, but this is not an amply available mechanism for most nonprofits. As the recent report published by the Irvine Foundation entitled "Critical Issues Facing the Arts in California," notes, "encouraged by public and private funders, tens of thousands of new organizations were created and cultural facilities built to house them...but the 40-year push to create more nonprofit arts organizations has not been accompanied by an equally powerful and effective drive to generate demand for their programs or services...or long-term sources of financial support."

The Plaza operator has cited the cases of Yerba Buena Center in San Francisco and the National Latino Cultural Center in Albuquerque as examples of proper "capitalization." But very unique contextual elements make these two examples not normative and hence not useful points of comparison. In the case of Yerba Buena, the funding the Redevelopment Agency provides (approx. 45% of YBC total operating budget) benefits from an extra-ordinary situation in which rents generated by other highly lucrative redevelopment projects in the same vicinity subsidy the art center. No other organization in San Francisco has a similar arrangement. If the rent scenario ever changes, Yerba Buena will face serious cuts. The NHCC is an even more extraordinary example. The state legislature of New Mexico, not the City of Albuquerque, funds the Center (at approximately 70% of total operating expenses or a little more than \$3 million annually). But the leaders who created the Center brought in close to \$40 million dollars in non-State funding to the project; their ability to persuade the legislature to fund the Center out of the state's general fund was an accomplishment close to twenty years in the making.

Capitalization by government sources of the magnitude represented by these two organizations is not common to the arts nonprofit field. In fact, the City of San Jose's general fund has never been able to sustain such a high level of ongoing operating commitment to any organization. Ironically, the largesse of the San Jose Redevelopment Agency—especially in the 1990s when many cultural facilities were built with RDA funds-- may have created the impression of a rich municipal purse. But state law requires that RDA only use funds for construction, not for the operating support of the facilities it builds.

---

<sup>2</sup> Some of these arguments borrow from Andrew Taylor's entry on August 25, 2004 in his Blog The Artful Manager.

Given the limited means for acquiring capitalization by means of government sources and the overall limited access of the large majority of nonprofit art entities to truly deep private sources of funds, it follows that one would ask: how do so many nonprofits manage to continue to produce and even thrive despite the lack of “capital”? The answer to this question constitutes the fundamental difference between sustainable and unsustainable art organizations. There is no deep mystery about it; neither is it an exact science. The most successful nonprofit art managers learn how to apply budgeting, planning, and accounting practices that allow them to generate and balance appropriately different sources and ratios of restricted (program or direct support) and unrestricted (operating or indirect) funds. Since art organizations could always use better facilities, more cash reserves, larger donations, better office equipment, and the like the question of “adequate capitalization” becomes ultimately a fairly subjective matter.

The findings of our research suggest that insofar as “capitalization” is an ideological construct subject to variant contexts and dynamics of exceptionalism, a stronger argument for increased levels of support from the City of San Jose to the Plaza over the last few years needed to have been developed. Such arguments, for instance, could have provided more persuasive levels of analysis if they had weighted the need for *cash capital* with the communal benefits that the Plaza accrues in the form of *social capital*. In order for this argument to hold up in the public domain, the operator of the Plaza must have had to make sure that the community was standing next to and behind it, and not at distance from the Plaza.

14. **Based on field visits to institutions comparable to the Plaza, interviews with key community stakeholders, and reviews of best practices in nonprofit management, our study has determined that a ProForma organizational template for a mid-sized cultural heritage organization (CHO) is better suited to the size, capacity, and character of the Plaza than the model of a large cultural facility operator and/or mainstream art organization.** Utilizing basic nonprofit management best practices, it is possible to sketch what a hypothetical best-practice operator for the Plaza would look like. Many small and mid-sized cultural and social service organizations in San Jose and elsewhere excel in this range and offer instructive models that can be emulated by the Plaza.

A survey by the Urban Institute in 2006 based on data provided by the National Center for Charitable Statistics provided a snapshot of some key characteristics of a sub-sector of the Arts, Culture, and Humanities sector denominated “Cultural Heritage Organizations” (CHO). Some of their findings help provide a context for what kind of arts nonprofit entity can be sustainable at the Plaza (for example, it affords a tool to gauge the “typical” mix of income sources and it can assist in determining what budget size can be realistic given the inherent patterns of capitalization in this sector):

- There are close to 3,000 CHOs in the United States;
- These CHOs represent 9% of the Arts, Culture, and Humanities sector;
- Nonetheless, CHOs represent only 6% of all revenues in the same sector (that is, they are largely underfunded);
- Only 4% of all CHOs had budgets of \$2 million or more;
- Almost 60% of all CHOs had budgets less than \$100,000;
- For Hispanic CHOs the distribution of income sources was 26% from government, 16% program-related earned income, 44% private donations, and 13% other.
- In 2001, 40% of African American and Hispanic CHOs ran deficits;
- CHOs usually operate on precarious margins of 1 and 2%

Three consultant studies before ours (in 1996, 2000, and 2005) have recommended that the Plaza approach its core operating model from a “back to basics,” “best practices,” and “start-up” standpoint. None of these recommendations have been followed.

The core idea is this: *the Plaza must construct an organizational infrastructure that is measured, disciplined, and well calibrated to actual capacity and not, as it has been the historical case, exceeding its means (financially and in terms of artistic/organizational management).* Whether it is curating a coherent and tightly focused performance season that funders can embrace consistently, taking charge to organize a calendar of activities at the Plaza that balances access to the facility by RAPs with income-generating renters and selective community free access, or embracing the opportunities and limits inherent in a budget appropriate to its actual capacity, long-term sustainability is attainable insofar as these practices are embraced and monitored appropriately.

15. **The most fundamental and urgent change needed to set the Plaza on a course of financial stability is a new approach to budgeting based on best practices of the nonprofit sector by a Plaza operator.** The community applauds the efforts of the current Plaza operator to wrestle with Plaza finances in ways that had not occurred before. However, most agree that earnest argumentation is not enough. Good, reliable, factual data must be central to any arguments for public support. In addition to simply adhering to standard accounting procedures (which the current Plaza operator has achieved successfully since it found the Plaza’s financial records in a terrible state of disarray in 2004), highly successful nonprofits go beyond the letter of the law in accounting matters to adopt habits, behaviors, and practices that connect planning and self-assessment with cash management tools. Former Stanford professor Jim Collins (author of the renown study of high performance companies entitled “Good to Great”) calls this unique ability of great organizations to bundle up their aspirations with best practices, a commitment to a “relentless culture of discipline –disciplined people who engage in disciplined thought and who take disciplined action.”

Best practices strongly favor two key budgeting practices:

- Income-based budgeting (otherwise known colloquially as “living within your means”);
- Program Budgets and cost allocations per programs.

Best practices resolutely discourage expense-based budgeting (determining what one wants to spend first and then plugging in the numbers somewhat randomly in the income side to make it match). This common practice among many nonprofits all too easily leads to “make believe” budget assumptions. In addition, best practice income-based budgeting demands the kind of foresight and discipline in program planning that is intrinsic to financial sustainability. Cost allocations per program areas are a fundamental practice to ensure financial stability. When organizations divide their activities into “programs” they can see clearly what obligations they have assumed; spread overhead across various programs; secure “project grants” that can contribute their fair share to general operating expenses; evaluate efficiencies; and weight solvency against artistic value and mission. We note per the findings of Strategic Philanthropy Advisors, LLC that these practices have been less than optimal at the Plaza.

### **Recommendations for Highest and Best Use of the Plaza**

A consultant's Report is only a snapshot of a moment in time; future conversations, changing circumstances, and additional analysis may add dimensions to these findings yet unforeseen. However, collectively, the findings in the Report provide a helpful framework for dialogue and learning. However, we are cognizant of the fact that frequently, the most significant learning involves various degrees of un-learning. Deciding to change course is never easy; but we firmly believe that the long-term benefits for the Plaza's ultimate stability and optimal use far outweigh any "pain" that can accrue through the process. The responsibility for deriving actionable steps from these findings falls ultimately to the City Council.

The chart in the next page outlines four distinct options for optimal uses of the Plaza.

## Plaza Use Options

	Concept	Facility Maint. (O&M)	Facility Management (booking users)	Programs/ Identity	Cost to the City	Revenue: to offset costs to the City	App NET Cost to the City	Implications
# 1 City Rental Venue	*Similar to Montgomery Theater or Civic Auditorium *No RAP Program *Long-term tenants optional	City	City (General Services)  or  Team San Jose	*Building is the identity *De-facto programs per user's demand *Art-related bookings a priority *Weddings etc. are a part	App. \$340,000 O&M ; App \$80K 1FTE Bookings Management	Rental Fees: app. \$300K	\$120,000 annually	*Cultural uses primary *No deliberate Mex-heritage program focus
#2 City Departments Collaborative	*Location of various City offices: *Non-City tenants optional *No RAP Program *Theater still art-related anchor	City	City (General Services)	*Building is the identity * De-facto programs per user's demand more limited *Art-related bookings mostly in Theater *Weddings, etc. are a part	App. \$340,000 O&M; App \$80K 1FTE Bookings Management; App \$200K in one-time retrofit.	Rental Fees (reduced to \$200,000 due to increased City use)	\$200,000 one-time  \$220,000 annually	*Cultural Uses secondary *Hodge-podge perception *Not the comm.. vision
#3 Comm. Cultural Center: City-Nonprofits Partnership	*Shared functions City/nonprofits * RAP Program *MHC as RAP * Third-party coordinator *Compatible City-offices/programs possible, i.e SNI	City	Needs management to coordinate calendar/mix of programs (Dallas model: City) or (Hoover model: Private Subcontractor)	*Mexican heritage identity possible by choice of RAPs *RAP-generated programs expected mix to serve community *Weddings, etc. are a part *Other art /nonprofit users as renters *Possible establishment of community access dates/reserve	App. \$340K O&M; \$240K 3 FTE Bookings Management	Rental Fees: app.\$300K RAP fees app. \$60K (conservative at 2x what it generates now)	\$220,000 annually	*Cultural uses primary *RAPs expectations that City rents be lowered or waived *possible gap btw RAP interests and community needs
#4 Comm. Cultural Center: New Nonprofit Organizational Model	* Nonprofit shapes key Mex-Her and local site identity *RAP Program *Multiple compatible community partnerships possible	City	Non-Profit Operator as Booking Management	*Mexican heritage identity strong *Build capacity incrementally *Arts Sector Best Practices used to gauge performance *RAP-generated programs *Weddings, etc. are a part *Other art /nonprofit users as renters *Possible establishment of community access dates/reserve	App. \$340K O&M; App. \$125K Ann. Operating subsidy;	None	\$465,000 annually	*Community-expressed vision *Consistent w/ precedent *No offset income to City

Essentially, we believe the City has four choices to consider. These range from tactical and bare to elaborate and complex. In our professional opinion, only one choice, however, would truly and appropriately respond to the highest hopes and aspirations of the community for the Plaza and honor the City's substantial investment in San Jose's Eastside.

On the *simpler end of the spectrum*, the City could opt to treat the Mexican Heritage Plaza in one of two ways:

1. **As a City Cultural Facility Rentals Venue.** The key features of this option include:
  - This option does not contemplate a RAP program in place.
  - Long-term tenants (former RAPs or others) are an option.
  - The City pays for and directly coordinates the facility's upkeep and maintenance.
  - Booking and calendar coordination are done by the General Services Department.
  - The central identity of the Plaza is contained within the building itself.
  - Programs at the Plaza are determined de-facto by the offerings of renters of the venue.
  - Art-related bookings are the priority.
  - Rentals for weddings, corporate events, and private parties are available.
  - The cost to the City is comprised of O&M upkeep and 1 FTE to coordinate bookings.
  - The City is the beneficiary of the rentals receipts.
  - This is the option with the lowest net cost to the City.
  - The main social/community cost would be the loss of any real Mexican-heritage focus in community programming, except for the name of the facility and through selected renters on demand.
2. **As a Collaborative of City Departmental Uses.** The key features of this option include:
  - This option contemplates the establishment at the Plaza of relevant community serving City departments and programs such as a Police sub-station, an office of the City's workforce development program (previously located at Story & King and recently displaced), staff from the Strong Neighborhood Initiatives, and others.
  - This option does not contemplate a RAP program in place.
  - Non-City tenants are an option.
  - The Theater is the only remaining art-related space in the facility in this option; by virtue of its booking by art groups, some art uses remain at the facility.
  - The City pays for and directly coordinates the facility's upkeep and maintenance.
  - Booking and calendar coordination are done by the General Services Department.
  - The central identity of the Plaza is contained within the building itself.
  - Programs at the Plaza are determined de-facto by the offerings of renters of the venue.
  - Art-related bookings are not the priority use of the facility.
  - Rentals for weddings, corporate events, and private parties are available.
  - The cost to the City is comprised of O&M upkeep and 1 FTE to coordinate bookings. In addition, one-time expenses to retrofit current Plaza spaces into City offices are estimated at \$200,000.
  - The City is the beneficiary of the rentals receipts, but receipts are lowered since the City will occupy many of the available spaces.
  - The estimated net annual cost to the City is at least half of what the City would spend in the Consultant's recommended option.
  - The main social/community cost would be the loss of any real Mexican-heritage focus in community programming, except for the name of the facility and through selected

renters on demand. In addition, art and cultural uses will not be the priority. An impression of a hodge-podge of City uses to fill space is likely to follow. Most importantly, this option does not honor or respond to the community's vision for the Plaza.

While some may perceive these options as the most logical and practical, in fact they are also the least imaginative, responsive, or effective. They reduce the Plaza to the lowest common denominator: simply a building. For the majority of the community, seeing the Plaza be used in this fashion will be heartbreaking. In a Focus Group, attendees stated that if such uses were the preferred course of action taken by the City, they would much rather prefer that the City remove the name "Mexican Heritage" from that facility altogether.

On the *more elaborate end of the spectrum*, the City could opt to treat the Plaza as:

**3. A Community Cultural Center operated as a Partnership between the City and Nonprofit Art Organizations.** The key features of this option include:

- This option contemplates a more extensive RAP program than what is now in place
- This option contemplates the current Plaza operator, MHC, remaining in the facility but not as operator. Instead, the MHC would become another RAP.
- A limited number of compatible City programs, such as the Strong Neighborhood Initiative, can be located at the Plaza as well.
- The art and cultural uses of the facility remain primary.
- This option will require more than simply a booking agent for the venues; it will also require functions of coordination among RAPs and other nonprofit cultural organizations to guarantee an appropriate mix of uses that meet community needs.
- The City could consider creating these coordinating position(s) inside one of its departments (i.e. Office of Cultural Affairs) or sub-contracting this function to a private for profit or nonprofit operator.
- The City of Dallas offers an interesting model similar to the option. The Dallas Latino Cultural Center is programmed mostly through community-based organizations and their program offerings (only a limited amount of programming is initiated by the operator) but the function of coordinating the events and services is assigned to a City staff member from the Department of Cultural Affairs. The title of this person's job is "General Manager." This person has a staff of 4 City employees (full time and part time) that assist with some educational City-initiated programs and marketing functions.
- The City of San Jose has a similar model in place for the management of the Hoover Theater. The Hoover Theater (200 seats) is adjacent to the Hoover Community Center where the City's Office of Cultural Affairs has three Resident Arts Organizations (in this case they're called "RAOs"). A private subcontractor books space in the theater for the three RAOs, which are all dance companies, but otherwise has no responsibility for them.
- The City pays for and directly coordinates the facility's upkeep and maintenance.
- The central identity of the Plaza can be shaped around Mexican-heritage in function of which organizations constitute the roster of selected RAPs.
- New RAPs can be identified that can provide some of the types of activities the community is interested in seeing take place at the Plaza.
- Rentals for weddings, corporate events, and private parties are available.

- In a new configuration of uses and RAPs, the City may contemplate establishing a policy to reserve a number of “community access” dates at nominal fees to be used by community groups.
  - The cost to the City is comprised of O&M upkeep and 3 FTE to coordinate bookings (or the equivalent of a contract for a subcontractor).
  - The City is the beneficiary of the rentals receipts –RAPs as well as external users.
  - The estimated net annual cost to the City is at least half of what the City would spend in the Consultant’s recommended option.
4. **A Community Cultural Center operated by a New Nonprofit Organizational Model.** The key features of this option include:
- A nonprofit arts organization whose mission is compatible with the Mexican heritage identity of the building is more likely to shape the identity of the Plaza and draw from its local assets and to bridge the many gaps with the community’s vision identified in this Report.
  - A nonprofit operator can design the kind of curatorial vision for the Plaza that can make it distinct, unique, and relevant to the aesthetics of the community.
  - If organized in a disciplined manner around models of best practices for Cultural Heritage Organizations (CHO), this nonprofit operator can grow capacity over time; the Best Practices of the arts and culture sector can be used to gauge performance.
  - This option contemplates a RAP program in place.
  - A number of compatible community partnerships for uses and programming at the Plaza can be established; as well, the nonprofit operator can become a part of the ecology of cultural and social advocates for Alum Rock/King and the Eastside.
  - The art and cultural uses of the facility remain primary.
  - The City pays for and directly coordinates the facility’s upkeep and maintenance.
  - The nonprofit operator will serve as the booking/management and coordinating entity for RAPs and other users.
  - New RAPs can be identified that can provide some of the types of activities the community is interested in seeing take place at the Plaza.
  - Rentals for weddings, corporate events, and private parties are available.
  - With the Plaza’s O&M expenses covered 100% by the City, the nonprofit operator may contemplate establishing a policy to reserve a number of “community access” dates at nominal fees to be used by community groups.
  - The cost to the City is comprised of O&M upkeep and a subsidy to support the general operations of the nonprofit operator.
  - The nonprofit operator is the beneficiary of the rentals and RAP receipts.
  - This is the option with the highest net cost to the City; there are no revenues to offset the City’s cost.
  - The main social/community benefits of this option would outweigh the costs. The City would follow precedent of how it relates to other cultural facilities and will affirm its commitment to working with and along nonprofits to serve community needs.

### **Consultants' Recommendations**

- Options 1 and 2 are inconsistent with community aspirations for the Plaza and the City's prior investments and commitments. The consultants' do not recommend any further study or consideration of these options.
- Option 3 represents a financially viable alternative or even a possible transition scenario while the City decides on next steps. However, unless further study and analysis are conducted to map in greater detail the logistical implications of this choice, the Consultants' do not recommend that the City proceed with this option.
- The Consultants recommend Option 4 as the preferred course of action. This option offers the highest possibilities for a unique identity for the Plaza that honors Mexican heritage and deepens community stewardship and participation.

The Consultants note, however, the risk that this option be interpreted as a continuation of the status quo. Many will argue that the scenario proposed in Option 4 is exactly what has been tried at the Plaza for nine years and proven ineffective. We acknowledge this inherent risk in our recommended option.

For this reason, we want to strongly emphasize that the viability of this option is resolutely predicated on the willingness of a Plaza nonprofit operator to embrace the operating model and best practices recommendations we are proposing. This is a model that calls for strict adherence to a handful of unequivocal "best practices" in community programming, engagement, and budgeting which we believe can be adopted, learned, monitored, and expanded upon.

Most of our findings and ideas for adopting a Community Cultural Center model imply profound changes in the nature, vision, and management practices of a Plaza operator. As this operator would be a nonprofit entity and we recognize that nonprofit organizations are governed independently by a Board of Directors, we note that the City's ability to demand any type of changes is limited. To be truly effective the findings from the community perspectives and best practices have to be freely embraced by any current or future Plaza operator. The City could, however, apply the community's own standard for *Quid Pro Quo* and build specific deliverables and expectations into any new or amended Operating Agreement it enters into with a Plaza operator.

Our recommendation of Option 4 is not based on any assumptions concerning the present Plaza operator. Our knowledge of the internal strategic planning decisions of the MHC is limited; we are in no position to speak about whether the vision and direction we are recommending is of interest or is viable for this particular nonprofit entity. Making such a determination is outside the scope of our work.

We do know, however, that a number of breakthrough decisions will have to be made in order to change the predicaments that have afflicted the Plaza thus far.

Below is a short sample of some of the next steps we consider of highest-priority.

### **Logistical Recommendations to Implement Option 4**

A preliminary menu of practices necessary to maximize the Plaza's optimal utilization as a community-based cultural center -- under an entirely new or a substantially re-tooled nonprofit profit operator-- would include the following:

- The City should take over all aspects related to the upkeep and maintenance of the facility and make payments directly to vendors such as utility companies and service contractors. It is estimated that the annual cost to the City for the Plaza's full O&M would be approximately \$340,000.
- The Plaza needs to formulate a distinctive identity, one that reflects its origins and its community. "Mexican Heritage" is a complex yet fruitful construct. An institution dedicated to its exploration and celebration must likewise express that complexity in multi-leveled programming strategies. High-profile presentations would likely constitute a small part of that strategy. Strategies need to include traditional, contemporary, and experimental artists, educational and participatory programs, and activities that connect social, economic, civic, and other aspects of the culture.
- The facility is what the community most values; all resources of an operator must be focused on the programming of the facility as a top priority. All or the large majority of activities undertaken by a Plaza operator must take place at the Plaza.
- A nonprofit Plaza operator should embrace with all reasonable means the community expectations that access to community uses be increased; that the RAPs be incorporated into the Plaza's inherent operating model; and that a focused, coherent, and predictable plan for locally relevant programming consistent with celebrating the cultural heritage of San José's Mexican and Mexican American communities be developed and implemented.
- A nonprofit Plaza operator should embrace the ProForma Budget template attached. Our footnotes to the ProForma budget include very specific assumptions for fundraising and programming that we believe are fundamental to the success of the model.

This is a budget that spells out an attainable and diversified plan for multiple levels of engagement in the stewardship of the Plaza, from foundations to the creation of a Donor circle. Our research findings have closely informed the creation of this ProForma budget; we know that many people in the community would step forward to assist in the financial and programmatic "reconstruction" of the Plaza if asked or given the opportunity. This is also a ProForma budget that proposes that expenses be modest and within the means of the actually attainable revenue sources. At the same time, it is ProForma budget that gives the Plaza operator the staff equivalencies of many peer mid-sized nonprofit organizations in San Jose and the Bay area.

- The most substantive organizational change a new or re-tooled Plaza operator model needs to make in the financial area involves strict adherence to Best Practices Budgeting. The strong assumption here is that there's only so much that forensic accounting can accomplish; any Plaza operator must go back to basics and begin planning and budgeting at the start-up phase.

Two core Best Practices Budgeting strategies are required: Income-Based Budgeting, and Programs/ Budget Allocations. Part of Income-Based Budgeting practices include a Budget Monitoring Plan that spells out clearly the assumptions that inform each budget revenue line and its required cash flow timeline and/or corrective actions. We have relied on our previous experience with the workbook "Budgeting Your Way to Financial Stability" by the LarsonAllen Public Service Group to craft this recommendation, but there are many other excellent resources available that can assist towards the same goals.

- An operating grant of no more than 15% of the proposed new or re-tooled nonprofit operator's ProForma operating budget (exclusive of facility costs paid for in the O&M agreement) should be considered by the City in exchange for the facility uses and programming described above. It is estimated that based on the ProForma Budget we are recommending this would represent an annual operating subsidy of approximately \$125,000.
- The City and the nonprofit operator must agree to a mutually crafted set of performance measures and monitoring mechanisms to ensure adherence to the conditions enumerated above.
- The City should create mechanisms to give the public opportunities to provide input and actively participate in the vetting and study of these findings, the recommended options, and the logistical next steps to begin crafting the new or re-tooled organizational model for the Plaza's operation called for in this Report.

### ProForma Operating Budget for New or Re-Tooled Plaza Operator

This is a ProForma budget derived from Best Practices principles for a mid-sized Cultural Heritage Organization working on a measured scale at either start-up or re-structuring level. It is a conservative, disciplined budget that, while not ideal, is attainable; it is a plan that can be grown incrementally as a solid foundation is established, relationships with funders are developed, and capacity is increased.

See footnotes (next page) for explanation on budget assumptions.

<b>Income</b>	
City Operating Subsidy(1)	125,000
City OCA Grant(2)	50,000
Rentals	260,000
Board Contributions(3)	20,000
Individual Donors(4)	60,000
Special Events (net)(5)	50,000
Ticket Sales/Tuition(6)	60,000
Business/Corporate	60,000
Foundations(7)	160,000
<b>Total Income</b>	<b>845,000</b>
<b>Expenses</b>	
Admin Staff	215,000
*Executive Dir 85K(8)	
*Admin Asst 40K	
*Development Asst 50K	
*Bookkeeper 40K	
Program Staff	100,000
*Director of Programs 60K	
*Programs Asst 40K	
Facility Staff	200,000
*Technical Direct 60K	
*Facilities Asst 40K	
*Rentals Manager 60K	
*Rentals Asst 40K	
Staff Benefits 15%	75,000
Art Programs Expenses	120,000
Fundraising Expenses	20,000
Marketing Expenses	50,000
Admin/Other Expenses	40,000
<b>Total Expenses</b>	<b>820,000</b>
Surplus/Working Capital Reserve 5%	25,000

**Footnotes for the ProForma Operating Budget for New or Re-Tooled Plaza Operator**

(1) City O&M support represents approximately 15% of total Operating Expenses; it is enough to cover salary and benefit expenses of two facility-related staff not covered by City's direct non-cash subsidy.

(2) OCA grants are competitive. The amounts organizations receive are a function of various changing elements: an average of their combined operating expenses for three years prior to the grant year; peer panel review scoring; and total funds available in the grants pool per year. A possible \$50,000 grant has been determined based on review of OCA records of past grants to organizations of a budget size around \$800,000 that performed well at the panel review in a year where total funding pool was similar to the pool amount in 2007..

(3) Represents 10 individuals giving \$2,000 each (cash).

(4) Represents the creation of a "Heritage Circle" of individual donors: 100 donors at \$500 and 2 Major Donor Gifts of \$5,000.

(5) Represents an attainable goal for a new annual event, based on achievements of other mid-sized local organizations. For example, ICA raises approximately \$200K in two events; MACLA's Auction averages \$40K.

(6) Represents 55% of house (275 seats) x \$20/ticket x 8 events in a sharply curated, heritage based performance arts season = 44K; In addition, it includes tuition income from music/dance classes and other community classes/workshops.

(7) Represents three Foundation grants at approximately \$50,000 each or six grants at approximately 25,000, and additional small foundation grants up to a total of \$10,000 to \$15,000.

(8) The 2007 Compensation and Benefits Survey for Northern California Nonprofit Organizations published by the Center for Nonprofit Management indicates that the average salary of the Executive of a nonprofit with a budget size between \$500K and \$1million is \$83,087. For budgets between \$1 M and \$2.5 M, average ED salary is \$95K.

*"Over 50 years of aspiration and hard work by the City's Mexican American community went into building the Plaza...any operator of the Plaza is responsible to that history and the 10,000 steps taken before them"*

*San Jose Resident,  
Assessment Participant*

## Field Notes

*In the classic American film The Wizard of Oz, Dorothy and her motley entourage battle many obstacles to reach the Emerald City. They've been led to believe a Wizard there can bestow upon them important qualities they think they lack. Finally, upon encountering the Wizard, they learn he has no power except to point out to them that they already possess the things they were seeking. Dorothy's quest comes to an end when she opens her eyes to find herself at home.*

### Who/what is a "community?"

Community is one of those words everyone uses liberally, but few are able to define with precision. An examination of how this word has been used and mobilized in regards to the Mexican Heritage Plaza must begin by acknowledging two essential points:

1. The word is most helpful when it is used in the plural –in other words, there are many different communities at any given time in any given situation. These are usually defined by a variety of common-bond interests (Mexican community, Portuguese community, golf community, legal community, etc.)
2. Even when the word is used in the singular, no single "community" is ever all of one cloth, homogeneous, hermetic, or static

Similarly, it is important to establish at the outset that a discussion about "the community" served by the Mexican Heritage Plaza does not in any way discount, dispute, or debate the following three assertions:

1. *All the residents of San Jose* benefit from the existence of the Plaza as well as from the many cultural, entertainment, social, and educational facilities and programs existing in the City (museums, libraries, meeting facilities, public events, etc). In this sense, we agree that the most desirable audience for the Plaza is, as one person told us, "the community of the City of San Jose."
2. Any organization, work, project, or idea can have some level of resonance beyond a strictly *local* boundary. The resonance can extend to the *region* in which it is located and occasionally it can reach *statewide* or even *national* levels. For example, an exhibit at a museum in Oakland is likely to interest *some* visitors from Santa Cruz; a symphony concert in San Francisco is likely to attract *some* audience members from Mountain View; and so forth. In the same way, we know that many activities that take place at the Plaza interest people residing in areas other than the immediate neighborhood.

Marketing industry precepts as well as best practices in the cultural field suggest, however, that the achievement of "regional" or "national" resonance rarely happens in opposition to "local." In fact, the reverse is what actually happens. These resonances are best gauged in terms of concentric circles that start from the local and move outwards.

Good cases in point are two recent stories in The New York Times about art happenings considered of interest to a national readership. One story told about Mexican immigrants in Nevada who compose "*corridos*" (traditional ballads) about the ordeals of immigration. A local cultural organization has been recording the stories of local Mexican farm workers who engage in this original artistic endeavor. The other story told about a young Chicano artist who has set to create a series of murals of very intimate scenes of his neighborhood in Los Angeles. The murals are not painted on walls in the actual neighborhood, but in "cyberspace" where he has created a detailed map of the most meaningful spots and places for people in this local community.

3. By function of its demographics, San Jose is now intrinsically a *multicultural* and *multiethnic* community. Any organization, business, or project in the City of San Jose (or in the Bay Area for that matter) is likely to reach, one way or another, a multicultural customer or audience base. However, even in a multicultural mix, people self-identify according to a variety of interests/preference factors: those who love jazz and those who prefer country music; those who are of Italian heritage and those who are of Mexican heritage; those whose first language is Chinese and those whose first language is English; etc.

Among the attributions commonly attached to the word "community" are ideals of cooperation, equality, but most of all, *a sense of belonging*. Since the 1970s the word "community" has acquired specific operational or technical meanings (some would argue even emotional or politically correct) connotations. In the context of government and social service policy, it usually stands for baseline constituencies –voters, taxpayers, clients, users of services. The word has is also frequently used as a direct reference to minority and disenfranchised populations, ethnic and cultural groups, neighborhoods, and publics impacted by the decisions of those in positions of authority.

For cultural experts such as sociologists or folklorists, such technical limitations are moot. For them, *any* group of individuals –rich or poor, ethnic or mainstream, established or emerging—can be a community. What matters is *how people perceive themselves* in relation to each other's shared interests. For the cultural arts, the definition advanced by the Tennessee-based cultural organization Alternate ROOTS seems to us to be extremely useful: "*groups of people with common interests defined by place, tradition, intention, or spirit.*"

In conclusion, in our discussion about the importance of the "local" and "community" it is acknowledged, as a given, that these terms envelope multitude of meanings and nuances.

#### **Rationale: The Preeminence of the Local**

Why should a nationally significant cultural institution look at the assets of its immediate surroundings? This is a question asked by some involved with the Plaza, and a question well worth exploring in regards to the theoretical and practical applications of contemporary cultural management and community development. The findings of our study highlight the significance of the Plaza's physical location as the cornerstone for creating a model for optimal uses and sustainability.

Perhaps the perception that has led to this skeptical position about "community" as a localized narrow construct is that for marketing purposes or to secure the interest of sponsors it is better that the Plaza be described as an arts venue for diverse communities that serves an un-specified ethnic balance of regional and local audiences. But facts derived from the MHC organization's own programmatic choices do not support that assertion.

For example, if we consider that the largest sponsor of the Mariachi Festival, the Univision Corporation, is one that specializes in Spanish-language broadcasting with a reach of 60% of the Mexican market in six Bay Area counties, then it makes no sense to assert that “no specific group” is the desired target. In fact, rather than enveloping *all groups*, in practical terms “no specific group” would mean that there is no target at all.

The success of the Univision sponsorship –and hence the success in ticket sales for the Festival-- is precisely tied to how specific the group targeted actually was. Focus and segmentation are the cornerstones of good marketing.

Given this context, it seems to us that finding and incorporating the essence of the history of the Mexican community heritage invoked in the name of the Plaza and turning the assets of the place and the neighborhood in which the Plaza exists into forward-looking values and identity has a higher chance of success than glossing over the site-specific constituency and character of this cultural facility.

Fundamentally, we identify five main reasons why attention to the dynamics of the local site and identity ought to matter a great deal in setting a new course for optimal uses of the Plaza:

1. Strategic planners in any industry sector must help their clients understand the assets, unique qualities, and capacities possessed by their enterprise. These are often found by looking close to home, to the roots of the enterprise – the conditions and motivations that brought it into being. The enterprise needs to know all the competitive advantages it has in relation to others in their sector. Of paramount importance is to understand as fully as possible the customer or constituent base and how these advantages have meaning to that base. Whether Eastside residents are considered primary customers for the Plaza or not, they are undeniably its original and essential constituent base.
2. Every organization, no matter how small or big, profit or nonprofit, whether it employs people, uses public services, or simply takes up space, has an inherent responsibility to its neighbors, its geographic home, and the people who live there. The very presence of a factory, warehouse, retail store, church, or museum has impact, whether that be causing occasional parking congestion or taking up space that might otherwise be filled with homes, locally-owned small businesses, or green space. Even the Lincoln Center in New York City, which encompasses an area of 16.3 acres and boasts an annual attendance of 5 million visitors annually, makes explicit its vision to serve as an economic engine and social glue for the surrounding neighborhoods.
3. The most successful cultural and community development organizations – both of relevance here – are those that have achieved a distinctive brand identity based in their assets. They are respected for doing what they do and there is depth and substance behind it. In the cultural sector the quality of this identity is measured by its authenticity, its recognition as an entity rooted in a unique idea, practice, or place. It is measured by how it achieves the highest level of quality within its distinctive niche. That niche is often self-defined. In fact, the most distinctive entities are those whose self-definition is unique, deeply rooted, and fully realized. Some argue that nonprofit entities have an even deeper responsibility due to tax advantages as well as direct and indirect public subsidies.
4. In the case of the Plaza, built predominantly with public funds, and actively seeking a higher level of public investment for its operations from the City of San Jose, the expectations for an

explicit rationale of local engagement and neighborhood impact are substantially higher than they would be in other entities that are privately funded.

5. The Mayfair and Alum Rock community in which the Plaza is located is extraordinarily rich in cultural assets, distinctive neighborhood character, and social-demographic qualities that can be harnessed to leverage the Plaza's position with a variety of partners, supporters, and funders.

## A Place of Distinction

*What then makes the Mexican Heritage Plaza unique?*

*What does it possess that is authentic?*

*At what does it excel that is distinctive?*

To answer these questions, we must first examine its roots.

Deconstructing the three words—*Mexican, Heritage, and Plaza*-- in the name of the facility is a good place to begin to understand the tangible and intangible assets, resources, aspirations, and skills embedded in the identity of this site.

Identifying and harnessing the powerful stories behind these words can make a substantial difference in the prospects for community advocacy and optimal uses of the Plaza.

### o "Mexican"

San Jose's Mexican character is a story that began in the late eighteenth century when Jose Joaquín Moraga and other representatives of the Spanish crown, most of them hailing from the region known today as the Mexican state of Sonora, constructed a new settlement on the ruins of an abandoned native Ohlone village and named it San José de Guadalupe. The Ohlone had inhabited the area for at least six thousand years prior to the Spanish arrival.

Over the next two hundred years, Spanish, Mexicans, and their descendants (alongside Asian and European-heritage settlers) helped shape this region of California through several evolving economic "miracles" ---first, as a midpoint stop for Gold Rush prospectors, later as one of the world's largest mercury mines, then as a cornucopia of fruits and vegetables, and more recently as the capital of the world's technological revolution. Mexican labor, music, food, and entrepreneurship have underwritten each one of these chapters in Santa Clara Valley's history.

After World War II, Mexican-American GIs came home eager to realize in their own homeland dreams of freedom and justice. Waves of "Bracero" migrant workers from Mexico joined them in the 1940s and 50s and helped established neighborhoods, schools, and myriad civic, health, and social organizations.

Many of the people we talked to during this Assessment see in the City's Mexican past ----inflected with a relentless commitment to social justice and an uncommon early tolerance for cultural and racial mixing— early clues to the progressive, entrepreneurial, cohesive, and resourceful social climate that for the most part defines Silicon Valley's social and political culture today. However, deep scars of social inequalities and racist ideologies are also part of the social memory of this community.

For these reasons, it is not uncommon to find between many Mexican and Mexican-American families in San Jose a sense of vulnerability over their social and cultural gains in the public sphere. Several

participants in our study remarked emphatically that “nothing has been freely given to this community; every achievement has been hard fought and hard won.” Despite great gains in recent decades in economic mobility, educational and professional success among some segments of the community, and the acquisition of substantial political power, the defining characteristic of San Jose’s Mexican, Mexican-American, and Chicano community is its remarkable commitment to social activism and ethnic self-affirmation.

- **“Heritage”**

Although there are several other highly respected Mexican, Mexican-American, Chicano, and Latino art and cultural organizations in San Jose and Santa Clara County, none epitomize the aspirations for cultural pride, social memory, and civic recognition as does the Plaza. For many, the Plaza is the tangible symbol where the Mexican community could establish its historic identity in the story of Santa Clara Valley.

Artistic and humanities innovations of worldwide significance began in San Jose’s Mexican barrios:

- The poet Lorna Dee Cervantes wrote some of the poems that define Chicano poetry here;
- The first press to publish an unknown writer named Sandra Cisneros was located here;
- Lowrider Magazine was conceived and began publication here;
- The visual artist named McArthur genius Amalia Mesa-Bains grew up here;
- Luis Valdez attended San Jose High School;
- Dr. Ernesto Galarza wrote some of the early and most significant works on American urban sociology here.
- San Jose is home to the most widely acclaimed band of “musica norteña,” Los Tigres del Norte.
- Los Lupenos was the first “Folklorico” dance company in the United States to formalize the transmission of Mexican dance and music primarily for US-born Mexican-Americans.
- The “Centro Cultural de la Gente” was a precursor to both MACLA and the Plaza and one of the original Chicano Cultural Centers to emerge out of the civil rights “movimiento.”
- In addition, many vernacular art forms—embroidery, leatherwork, folk architecture, gardening, herbal folk healing, and food traditions are prevalent in this area.

The “heritage,” then, to which the Plaza’s name refers, is honorable, dignified, abundant, expansive, and resilient.

Nonetheless, while the word “heritage” may conjure up images of quaint and static cultural traits, the community has also demonstrated a forward-thinking disposition for innovation and has consistently engaged in critical debates about the meaning and evolution of this term.

Contemporary art centers like MACLA, which sponsors the avant-garde Chicana/o Biennial; Teatro Vision’s Chicano adaptations of classics of Spanish American literature like Blood Wedding; Los Lupeños’ original choreography of Mexico’s African musical legacy; the recent collaboration of the MHC organization with the Steinway Society to present a gifted classical Mexican pianist; or the impressive South Bay installment of the Bay Area Latino Film Festival are only a few of the ways in which the community locally reinterprets its own cultural materials.

- **“Plaza”**

Spanish authorities prescribed the grid-plan town built around a central square denominated a “plaza” for all their possessions in the New World. An urban form thought to have origins in the Renaissance, for many years scholars interpreted the plaza lay out as the architectural representation of oppression

and colonial control. More recently, a renewed appreciation for pre-Columbian contributions to the plaza form has emerged. Now, it is widely believed that many of the beautiful plazas of Mexico and Latin America may owe a great deal to the Spanish borrowing of urban forms from cities such as Tenochtitlan and Cuzco.

The choice of the word "plaza" to name this facility as well as the architectural design that resembles the built-form of a traditional plaza implicitly calls for a vision of community programming and local access. Almost unanimously, every person we talked to described his or her idea of the Plaza as a "gathering place." The expectation that the central quad of the Mexican Heritage Plaza be used for accessible community celebrations and civic events is a culturally-intrinsic expectation and a semantic mandate. Any place called a "Plaza" will be expected to be, as one participant told us "a grand public space that welcomes everyone."

### **Location and Infrastructure**

The location of the Mexican Heritage Plaza at Alum Rock and King has symbolic and strategic significance.

The neighborhood now known as Mayfair and Gateway East served as the original areas where Mexican Americans settled in San Jose after the conquest of 1846. Beginning in 1928, immigrants from Mexico settled in larger numbers here, some camping temporarily during harvest season, some buying lots and building homes. The area was largely agricultural and the canning industry attracted many immigrant workers. The neighborhood was named "Mayfair" after a packing plant where locally grown apricots and prunes were once processed by hundreds of Mexican farmhands. Concentrated barrios reached a peak during the 1940s and 1950s as Mexican workers replaced Italians and Portuguese in most canning jobs.

The original four barrios from which the Mexican American community grew up were located both north and west of King in what are now known as Mayfair and Gateway East neighborhoods. As unincorporated areas, these barrios constituted self-contained social systems, achieving political and cultural autonomy by the 1960s as the farm worker movement led by Cesar Chavez, and the Chicano movement across California both gained momentum. The site on which the Plaza was built served as a symbol of community power as the former site of a Safeway grocery store, the site of the first boycotts organized by Chavez, a neighborhood resident.

Both King Road and Alum Rock are major arteries serving these and adjacent communities. Alum Rock is the eastward extension of Santa Clara Avenue, the de facto main street of downtown San Jose, the street on which the new City Hall is located a little over two miles in a straight line from the MHP.

### **Institutional Roots**

This community – *this place* – gave birth to the Mexican Heritage Plaza. The people of San Jose's Eastside and the City's Latino community at-large envisioned and made real a place to express their history, traditions, culture, and ambitions.

Part of the rationale for building the Plaza at the intersection of Alum Rock and King was to stimulate cultural, economic, and social revitalization of Eastside neighborhoods, including the Alum Rock Business District. Moreover it was meant to signify a sense of "arrival" for the Mexican community – to serve as an indicator that Latino culture deserves an institutional place within the larger landscape of San Jose and Santa Clara County.

While a large part of the City's redevelopment plans for this area have not been fully implemented, (see extended discussion on this point further down), many participants in the study also remarked on the inability of the Plaza to successfully play any active or purposeful role in this work up to this point either ----for example, as convener or catalyst of a larger community-planning process and visioning for the area.

The best hope for truly making the Mexican Heritage Plaza distinctive ---to build a reputation for cultural programming and excellence that sets it apart---is to deepen every aspect of programming and governance that connects the facility to its surroundings and its origins.

Distinction and widespread recognition are more appropriately and authentically gained through imaginative ways the community is included, involved, and served by the Plaza. The idea that popular celebrations and community-based social activities cannot complement the expressions of the most sophisticated artists and audiences is an idea that serves neither.

### **The Raw Material**

Consultants reviewed a number of sources, and engaged in an on-site survey of the surrounding community. This includes U.S. Census data, including County Business Patterns, information from the Bureau of Labor Statistics, aerial maps, and planning reports produced by the City and neighborhood organizations. The zip code area of 95116 reasonably approximates the one-mile circle around the Mexican Heritage Plaza, thus census and employment data for that area was retrieved and is analyzed here.

Mapping the character of the Eastside for the purpose of this report focused on a variety of things: history, demographics, economic base, sense of identity, local aesthetics, nature and quantity of enterprise activity, and indicators of social and civic engagement. Observable assets and conditions, along with interviews with neighborhood leaders suggest a number of conclusions pertaining to these characteristics and to the community's values.

Consultants surveyed commercial, residential and public spaces block by block. They identified and quantified the number and types of business enterprises, observed the condition of homes, yards, and automobiles. Additionally they observed conditions and uses of streets, parks, schools, and public amenities of all kinds. Several local informants also helped identify the use and significance of various districts and public facilities.

### **Census and Marketing Data**

For purposes of this analysis, data is derived from the zip code area of 95116, a jagged-edged rectangular area. It includes all of Mayfair and Gateway East -- most of the one-mile-wide circle around MHP but extends further west and east. The total estimated 2007 population of the zip code area is 55,953, an increase of over 4,000 from the 2000 Census. It's more densely populated made up of 13,101 households with an average of 4.3 persons per household. In comparison, in San Jose as a whole, there are 3.2 per household. Median household income is \$60,012 compared with a city-wide median of \$70,243. Median home value in the 95116 area is \$270,300 compared with a \$394,000 median value across the city. A slightly larger percentage of males than females, 52% to 48%, live in this area compared with a city-average of 50.8% males to 49.2% female.

Racial make-up includes 67.4% reporting Hispanic origin, with 28.9% indicating they are White alone. 21.6% indicate they are Asian or Pacific Islander alone, 2.7% Black alone, and 1.1% American Indian alone. This represents a far higher percentage of Hispanic or Latino compared to 30.2% city-wide, far fewer Whites (47.5 city-wide), slightly fewer Asian or Pacific Islander (27.3% city-wide), and fewer Blacks (3.5% city-wide).

The median age in the neighborhood is 27.9 years, considerably lower than the city-wide median of 32.6 years. Children under 9 total 18.9% of the neighborhood population, compared with a city-wide median average of 15.3%.

While the area is younger, more densely populated, poorer, and more heavily Latino than the average San Jose neighborhood, the real numbers likely vary because of under-reporting of multiple family households, immigrants lacking documentation, and a larger-than-average informal economy. Household income is likely higher, the numbers and percentages of Hispanics probably higher and the local economy more robust.

For planning and marketing purposes, the Environmental Systems Research Institute (ESRI), publishes a Community Tapestry segmentation system. It uses 65 types based on demographic variables and consumer behavior to analyze and describe U.S. neighborhoods. This area of Alum Rock and King embodies characteristics of two ESRI market types. Firstly it is considered a "Las Casas" neighborhood, containing the latest wave of western pioneers, almost half born outside the U.S., dominated by young Hispanic families. Markets are strong for baby and children's products. Residents enjoy Hispanic music and radio, reading adventure stories, watching movies, and playing soccer.

Secondarily, the neighborhood is considered an "International Marketplace," a developing urban market with a rich blend of cultures and household types. Almost 70 percent of households are occupied by families. Residents' top purchases are groceries and children's clothing. They shop at stores such as Marshalls and Costco, but frequently use convenience stores such as 7-Eleven, according to the ESRI profile.

Within the 95116 zip code area in 2005 (the most recent data available) the Census Bureau's County Business Patterns listed 591 business establishments with almost 7,000 employees on their payroll. Of those, 345 were small businesses with between one and four employees. Annual payroll in the area totaled almost \$271 million. Because of the Regional Medical Center on Jackson just north of Alum Rock and related businesses, the category of Health Care and Social Assistance topped the list of establishments with 201. Only one business listed the number of employees at 1000 or more. The next largest employer in the neighborhood is a construction company listing between 250 and 499 employees.

Retail Trade was the next largest sector with 85 establishments. Construction and Accommodation & Food Services, each had 54. There were 26 Real Estate & Rental & Leasing firms and 24 Professional, Scientific & Technical Service firms. Of 23 manufacturing businesses, only one listed the number of employees at between 100 and 249. Others were smaller. Overall the largest employers are Health Care and Social Assistance establishments. The next largest are Construction and Retail Trade. Arts, Entertainment & Recreation is among the smallest with seven total establishments, most of whom list from one to four employees. One listed between 5 and 9, with a Golf Course & Country Club being the largest with between 20 and 49 workers.

## **Block by Block Inventory**

To get a different look at the neighborhood than provided through standard demographic, economic, and marketing data, consultants observed and inventoried retail businesses, residential areas, and public spaces in ways designed to indicate what local residents and consumers value. This was undertaken to understand the kinds of choices they make for social, cultural, recreational activities and what they consider necessary for personal and community life. This inventory also serves as a window into what kinds of cultural attributes as well as personal skills and consumer interests entrepreneurs build their enterprises around. It serves to better understand the environment within which MHP was created, in which it exists, and upon which it can draw.

**Making use of local assets and incorporating them into the identity, programming strategies, and fundraising for the Plaza provides the most successful model for building an enterprise with the highest level of distinction and for sustainability.**

A block by block inventory surveyed an area running on a west to east axis along Alum Rock from 24<sup>th</sup> Street to Capitol, and along King from Story to McKee. It should be noted that the area included only the north side of Story at King and the large strip shopping area there. A substantially larger shopping area immediately across Story to the south was not included, although it is recognized that all corners of the intersection have importance to the community. More of an oval than a circle, with the MHP at its center, the area surveyed follows the primary commercial and social corridors along Alum Rock and King and includes the sections of residential areas historically inhabited by Latino communities responsible for the political organizing that resulted in the birth of the Mexican Heritage Plaza.

The inventory captured six major categories of enterprise: 1) formal social spaces, 2) auto related businesses, 3) home and personal items, 4) food, 5) professional services, and 6) vacant properties. Each category covered several specific types of business or activity. Home-based businesses and others not easily identified from the streets were not surveyed. Street vendors with carts or trucks were observed in some areas but not systematically inventoried. Many types of public or quasi-public spaces including streets, parking lots, parks, and sidewalks were observed for the informal social and economic transactions that take place. Residential neighborhoods were inventoried using aesthetic criteria such as conditions of and unique modifications to homes, yards, and vehicles. Certain recurring attributes as well as unusual items were photographed.

A total of 28 vacant commercial spaces were counted, the largest number (18) in the stretch of Alum Rock between King and Jackson.

Formal social gathering spaces in the neighborhood include churches and cultural organizations (16), public parks and schools (11) and bars, dance clubs or billiard halls (5). They're relatively small in total number, although the number of churches is probably under-counted. Some church groups use facilities such as schools or other spaces for weekly programs and some meet in buildings that aren't easily distinguished as churches.

A total of 48 automobile related enterprises were documented. An unusual concentration of repair and sales (21) as well as custom parts suppliers (16) line Alum Rock, especially east of King. Fueling stations (11) made up the balance.

At least 85 enterprises cater to home and personal items, the largest number (26) under the category of jewelry, gifts, music, and party supplies, followed by clothing, fabric and sports gear (15) and

electronics and appliances (13). Photo, printing and sign businesses (9) were relatively numerous along with laundries (9) and hardware, home repair (7). A small number of furniture and upholstery businesses (2) and garden and pet shops (2) are also supported in the neighborhood.

Food-related enterprises are quite numerous and many also serve as informal social and cultural gathering places. At least 78 enterprises were counted, the largest number of which (44) are specialty food shops, restaurants or bakeries. These appear to be locally owned and operated and are built around ethnically-based foods and products. In contrast fast food or chain restaurants (15) are not as numerous and are scattered throughout the area. Convenience stores, some of which also sell liquor or videos (15) are also broadly distributed with a number full service grocery stores (4) located in three distinct quadrants.

The largest number of enterprises (117) fit the category of professional services. Financial, loan, insurance, real estate and travel businesses (41) are often combined or mixed together or within other businesses. In contrast only three formal banking institutions have branches in the area. Shops specializing in hair, nails, beauty products or tattoos (35) are also numerous and widely distributed. Medical, dental and other therapies (24) are numerous with concentrations at Alum Rock, east of King and near the Regional Medical Center. This number is likely under-counted. Observers did not enter the Medical Center and adjacent professional buildings. Census data indicates a larger number of these establishments. Likewise medical supply and pharmacies (10) are probably more numerous if the Medical Center was thoroughly inventoried. Social and legal services (7) were relatively small in number.

### **Community Characteristics**

Based on these inventories, observations, and other data a number of conclusions have been drawn. They fall into three general areas: 1) sense of community identity and aesthetics 2) consumer preferences and entrepreneurial responses 3) social and civic values.

#### ***Sense of Identity and Aesthetics***

1. Eastside residents exhibit a strong sense of pride in place. This is expressed through a variety of unique modifications made to homes including fences, gates, flower gardens, shrubs, and lawn ornaments. Interviews with informants, as well as Strong Neighborhood Initiative reports reinforce this. Awareness within the community that the Eastside has an identity perceived by outsiders is evidenced. Active use of public spaces and connections with local schools also serve as indicators of involvement in the collective public realm for the purpose of improving conditions.
2. A high value is placed on Mexican heritage and culture. The types of businesses and the variety of products bear this out. They include food, clothing, music, party supplies, and a mix of traditional decorative items. This is additionally indicated by the simple fact that residents are drawn to an area with family roots and a long-standing Mexican identity as well as informal social networks. The prominence of the Mexican Heritage Plaza itself is also an indicator that cultural heritage is important. The large number of Mexican restaurants, bakeries, and specialty food shops along with very popular and active take-out eateries such as La Costa and Chalateco, further indicate this value.
3. Individuality and creativity are practiced and demonstrated in the home and daily life. Creative modifications to homes and motor vehicles are common. The high number of hair and beauty shops indicate a large number of entrepreneurs practicing aesthetic skills. There is

active support for these businesses from the community. Similarly, jewelry, fabric, and specialty clothing businesses indicate that personal care and adornment are important. In addition to the unique fences, gates, and shrubberies mentioned above, several homeowners in the immediate area around the Plaza have created elaborate displays of small collectable items, stuffed animals, and grotto-like environments in their front and side yards.

4. Automobiles play an important practical as well as symbolic role in personal and community life. Residents carefully buy and maintain vehicles, customizing and modifying wheels and other elements. Customers undoubtedly come from far and wide to patronize custom part and repair shops, but many of the entrepreneurs and employees are from the neighborhood. An active informal "used car lot" exists on the street wrapped around the northwest corner of Plata Arroyo Park. The neighborhood is a destination for many looking for transactions, repairs, and parts, and has thus accrued an identity as such.
5. There is a high comfort level with the mix of cultures and cultural activity. Churches rooted in various Latino, Asian, and European cultures are mixed within residential and commercial areas. By historic pattern and according to informants and the presence of diverse businesses, the community is welcoming to new arrivals from Mexico as well as other parts of the world. Shops, eateries, and customers of different ethnicities comfortably mix side-by-side within commercial areas. Further, there a mix of types of enterprises or products side-by-side. Among businesses throughout the area, there is a high incidence of "layered" enterprises or businesses in which a mix of entrepreneurs, products, and/or services exist within one space. This may result from sharing the cost of rent or from family members with different interests starting small franchise enterprises, such as a cellular phone outlet within a clothing store. The most intriguing was one storefront shared by loan and tattoo businesses.

#### *Entrepreneurial Activity and Consumer Choices*

6. People are driven by their cultural traditions and skills to create new enterprises. The area evidences a predominance of unique, locally-owned shops. Amidst an active business and commercial area with at least 333 individual retail enterprises, the overwhelming majority are independently owned and are rooted in cultures from Mexico, Vietnam, India, and other parts of the world. They serve as the backbone of the local economy and provide choices for those seeking products and services familiar within their cultural milieu. There are few chains and "national brands." Even within the "big box" environment at King and Story, cultural choices are important. The retail mix there further demonstrates both local entrepreneurship and sense of identity, as well as the desire for culturally-based options, mixed with a sense of connection to national chain brands.
7. A high value is placed on taking care of personal business related to finances and immigration status. This is evidenced by an extraordinary number of tax, insurance, immigration, travel, and other financial service businesses. These types of businesses, often bundled within other businesses, represented the second largest number of business types. Food enterprises constitute the single largest. While these entrepreneurs and service providers undoubtedly serve a clientele from many different nearby neighborhoods, their concentration here, like that of custom auto parts and repairs, makes it a destination, a place with a reputation and identity for getting ones business taken care of.
8. The community exhibits a strong ethic of hard work. It is by nature a community of working people – a working class neighborhood. Few people have expensive new cars. Homes are small and ordinary underneath individual customizing. Multi-family housing units have been added

in more recent years for renters and young families as well as for seniors. A sense of independence or self-reliance is also in evidence because of a low incidence of alcohol-serving establishments and of dependency-oriented charity organizations that are typically more common in poorer working class communities in other cities. The high level of small entrepreneurial businesses is also an indicator of drive and hard work.

9. Courage, risk-taking and mutual support are strong values. It is largely a community of immigrants who strive for a better life and struggle to overcome obstacles. As is common among immigrants there is a desire to retain connections to home and cultural heritage, yet to build a new life. Immigrants have exhibited the courage to leave home and travel to an entirely new place where some have started new businesses. Here they rely on the Eastside's reputation as a better place where they put trust in support networks of family or friends. One long-time resident and observer indicated the immigrant spirit in the neighborhood was palpable, wishing that it could be "bottled." Others indicated that informal social networks provide the life-line both for newcomers and for more established residents starting their own businesses, whether it be plumbing or hairstyling.

#### *Social and Civic Values*

10. The public realm and market places are highly valued. Both formal and informal places for social connections and trading are essential. Restaurants and café's provide important informal social spots. For instance, Café Docante on the side of 1595 Alum Rock provides an important gathering place for the Portuguese community. A popular Mexican restaurant in the shopping center at 2650 Alum Rock serves as a community viewing spot for televised soccer as well as for engaging in other games and listening to music. Sidewalk interactions occur in limited areas. This is not a community where a lot of people stroll on commercial streets except for commuters using buses in the morning and late afternoons. Some residents set up yard sales in residential areas attracting people who walk or drive by. Public parks are more heavily used by poor and working people who don't have large yards or play systems at home and who seek to enjoy the open space. Where formal opportunities are not present, people create interaction in nontraditional ways. The "used car lot" mentioned above results in many people strolling and looking at cars. Drivers on King who pass under the vast 680 overpass, make a practice of honking their horns to experience the echo. Some toot out rhythms, some interact playfully with others and honk in response. Parks, schools, and community gardens are widely shared and considered vital amenities.
11. The education of youth is important. As in most immigrant communities, the opportunity for youth to attain a formal education is highly valued. Neighborhood schools are central to life and reflect community identity. School buildings are covered with murals and mosaics created with participation of students and neighbors. Cesar Chavez Elementary School and others were named for notable local residents.
12. Choice of religion and place of worship is important. The number and variety of organized churches in a relatively small geographic area indicates that gathering for religious practices is important. They include a variety of Western and Eastern traditions, as well as a few self-styled evangelical sects. Certainly some people come from outside the community to participate in these activities and some locals undoubtedly travel elsewhere. A few fairly large and established churches are found. Others are small or have limited resources for buildings and programs. Nonetheless, organized congregations are numerous.

13. Informal social networks are an important part of economic and civic life. For newcomers to the neighborhoods, these networks are directly linked to economic survival. As noted above immigrants and entrepreneurs with emerging businesses find them essential for their success.
14. The community possesses a strong tradition of civic activism. The celebration of Cesar Chavez as a member of the community whose early work organizing consumer boycotts gained traction here is only part of the story. The fact that much of the area was politically autonomous during its formative years and through much of the 1950s, suggests that indigenous leadership developed and emerged. The election of Blanco Alvarado as the City's first Latino Councilmember, and later a County Supervisor, demonstrated community cohesion and power, signaling that this neighborhood had emerged as a center of Mexican American political organizing. Parking lots at Story and King have served for decades both as symbolic and actual sites of community organizing and protest. This same sense of power and cohesion resulted in the construction of the Mexican Heritage Plaza at a central and symbolically important location.
15. A high value is placed on caring for the elderly. Multiple senior housing facilities are scattered throughout the neighborhood built and managed by religious and social service-based entities. Most notably Girasol and Las Golondrinas, adjacent to MHP, are two impressive senior housing buildings developed by Mexican American Community Services Agency, Inc. Catholic Charities also operates senior housing and a senior center just a couple blocks east of MHP on Alum Rock.
16. Celebrations acknowledging life transitions are important to families. Coming of age rituals, birthdays, marriages, deaths, and holidays are recognized with fanfare. Mostly rooted in cultural tradition, these events require services, gifts, food, and appropriate spaces. Some are conducted in homes and backyards, others in churches and other formal gathering places. Gift shops, party stores, photography studios and processors, and printers are numerous in the neighborhood. Some provide limousines, other piñatas. One of San Jose's largest cemeteries is located within the area surveyed.

### **What the Neighbors Value and Want**

San Jose's Strong Neighborhood Initiative (SNI) worked extensively with two neighborhoods surrounding the MHP, Mayfair and Gateway East. Mayfair, the neighborhood in which the Plaza sits, comprises the southeast quadrant of the one-mile circle. Gateway East, which includes areas also known as Plata Arroyo and Mayfair West, sit to the north and west of MHP.

These SNI plans developed by residents for their neighborhoods identified a number of assets. Dedicated residents and strong community organizations were named as the most important assets in the 2002 Gateway East improvement plan. Location and access to transportation including public transit, along with the diverse mix of residential types and styles were also cited. A unique historical asset identified by the community is the air raid siren left over from the post-World War II Cold War era. Parks, nearby schools, and the Mexican Heritage Plaza were also identified as neighborhood assets.

While the 2003 Mayfair SNI plan identifies some similar attributes, a 2004 Mayfair Improvement Initiative publication, *The Mayfair Index of Progress* described the community's assets in four categories: work ethic, multiple languages, economic strength and voting power. A strong work ethic was cited as a key asset resulting in upward mobility, a growing economic base and improving living conditions.

Residents ability to speak, understand, and function cooperatively within a multi-lingual community was identified as an emerging asset positioning the community favorably within a global economy. The total purchasing power of the community aggregated to over \$177 million at that time. This makes it a formidable force when organized on behalf of the neighborhood. Finally, a relatively high number of registered voters who actually voted in local, state, and national elections was identified as an asset for the neighborhood to build upon.

These two active neighborhoods, with long and rich histories, completed their SNI planning process with wish-lists and implementation plans addressing each community's top ten priorities for improvement and development. They are:

#### *Mayfair*

- 1) New Adult Learning Center
- 2) New Library
- 3) Affordable Housing for Families and Seniors
- 4) Upgrade Street Lighting
- 5) Collaboration/Communication Between Police and the Community
- 6) Increase Gang Prevention and Intervention Programs
- 7) Traffic Calming
- 8) Implement Neighborhood Cleanliness Program
- 9) Improve Employment Assistance and Programs
- 10) Support Proportionate Increase of Homeowners to Renters

#### *Gateway East*

- 1) Neighborhood Center
- 2) Sanitary Sewer Improvements
- 3) Storm Drain Improvements
- 4) Housing Improvements
- 5) Park and Recreation Facilities Improvements
- 6) Community Garden
- 7) Street Improvements
- 8) Traffic Calming
- 9) Streetscape Beautification
- 10) Enhance Public Lighting Levels

Both neighborhoods included places of gathering for human and social development at the tops of their lists. Gateway's plan made it a top priority to "establish a neighborhood center to provide activities and programs for children and adults." In its implementation plan Gateway, in fact, singled out the Plaza as an option for leasing space for office, meetings, and ongoing neighborhood activities. The neighborhood group met at the Plaza until early 2007 when it was told space was no longer available to them. They have since met outdoors at picnic tables in Plata Arroyo Park. Mayfair's express vision was to "ensure that all Mayfair adults have ready access to educational opportunities and programs, provided in a culturally-sensitive manner, to gain successful employment and pursue their personal interests." Both neighborhoods have made some progress on their plans but have retreated in some areas due to reductions in City funding in the years since their plans were completed.

### **Tapping Local Assets for MHP Success**

Based on the observed assets and characteristics of Eastside neighborhoods, a number of approaches emerge related to the Plaza's identity or brand, to its programming strategies, and its fundraising approaches.

Neighborhood assets and characteristics present a variety of exciting curatorial constructs around which programming can be built. Such programming can manifest in performing arts series, exhibits of visual arts or historic artifacts and film series, as well as multi-disciplinary series and educational programs.

Aesthetics, entrepreneurial activity and values present in the neighborhood suggest some topical curatorial constructs.

- 1) The history and tradition of fences, like so many customized fences found in the neighborhood, suggest metaphorical meanings (barriers, boundaries) as well as the art and craft of building. A photographic essay of residential fences in the neighborhood by a commissioned artist and/or a youth photography project could be an element. As a theme it may suggest choices of performing artists. Positioned and marketed smartly it could draw heavy local involvement as well as international acclaim.
- 2) Personalized automobiles are a phenomenon in many contemporary cultures with Mexican and Mexican American low-riders being some of the most highly refined and culturally rooted. Cars have both broad and local appeal but the remarkable concentration of custom auto parts and repair shops in the immediate area present many opportunities for sponsorship and community involvement. If built into an annual event, series, or festival, it could both make the MHP and the Eastside a distinctive destination with wider recognition, while promoting local business.
- 3) Life transitions as recognized through Mexican culture have both universal meaning and local appeal. As a programming construct for performing arts, exhibitions, films, or multi-disciplinary series or events, excellent work by artists of all kinds can be brought to MHP. Creating an identity for MHP as a highly-desired place for such celebrations could be a valuable side effect.
- 4) Neighborhood groups, especially those working through the City's SNI Program, have a keen interest in evolving ideas around urban design. Design traditions in Mexico and their roots in Mayan, Aztec, Spanish, and Moorish societies, as well as contemporary ideas in Latino communities suggest many opportunities. Partnerships with the RDA, American Institute of Architects, architectural and planning firms, neighborhood groups, San Jose State's Urban Planning Department, and others would bring support, ideas, and excellent work and discussions.
- 5) Evident widespread neighborhood interest in gardening, flowers, topiary, and other residential embellishments such as grottos, suggest another construct. Similar to architects and planners, designers, growers, the nearby (Chinese-name?) Garden and other organizations and local individuals with similar passions can help generate success on multiple levels from such a series or exhibition.

- 6) Major milestones in the history of Chicano/Latino cultural and political movements in California, the important role of Eastside residents in those advances could be built around as a series. Artists and other key individuals leading and representing change can be featured. There is no shortage of ideas, approaches, or quality artists appropriate to this topic. What's important is the local connection. Simultaneously elevating the position of the Eastside and MHP carries enormous value to both and helps further bond their successes.

Above are a few ideas of curatorial constructs or themes that could tap local assets while forming an identity for MHP that is distinctive and fundable, that serves the neighborhood and serves MHP.

### **Community Engagement and Service**

While most of the curatorial approaches above include a community engagement, education and service dimension, there are other local assets that could be tapped either in concert with artistic programming or as separate activities.

- 1) The largest employer and business sector in the neighborhood is health care. This is a sector that is rarely lacking in financial resources and one that has increasingly embraced art and culture as both a form of therapy and as a strategy for furthering wellness. Sponsoring arts programs along with health fairs or clinics uses the Plaza's public space and capacity to draw people. An ongoing relationship may also result in new funding streams, new community activities, and new programming ideas.
- 2) Similarly, the high number of financial, immigration, and travel-related businesses in the neighborhood suggests community services, partnerships, and possible funding sources previously untapped. Artistic programs are less obvious but the phenomenon of immigration and migration is universal and rich in stories.
- 3) The multitude and range of schools within a one-mile radius demands ongoing relationships and relevant program activities. With education and the well-being of youth as a high community value, the Plaza's position in the community is heavily tied to its express concern for youth. Leveraging existing programs as well as developing educational dimensions to new exhibitions and performing arts series is vital.
- 4) Similarly, the concentration of seniors in very close proximity to MHP demand ongoing relationships and programming designed for this constituency. Seniors themselves are repositories of history and tradition. They also have more time available for volunteerism. This double-barrel asset should be consulted frequently for ideas. Free, discount, and subsidized ticket programs if not in place already, are easy ways to foster one level of participation, but should not be the only one.
- 5) Neighbors are hungry for social and civic meeting and gathering places. These are among the top priorities articulated by the neighborhoods through the SNI Program. Every opportunity to host important community meetings – or even to designate one evening per week (or per month to begin) as a neighborhood night, opening the facilities for local clubs, associations, and activities – would go far to rebuild neighborhood support and loyalty. Perhaps a corporate sponsor, the Regional Medical Center, or the City (or some combination) would serve as sponsor and provide resources. It could be billed as an event to promote a healthy neighborhood or to increase civic engagement.

- 6) Conducting a more in-depth and on-going inventory of creative artists in the immediate neighborhood and inviting them to lead demonstrations, workshops, and informal exhibits would enliven both MHP and the community. An annual survey exhibition or residents or workers within the 95116 zip code area, for instance, would provide an ongoing vehicle to identify and build these relationships. An annual neighborhood art fair is another. In either case, promoting 95116, the Eastside, or Mayfair/Gateway East Neighborhoods as a place exceptionally rich in creativity and tradition only elevates MHP's position regionally and nationally.

### **Fundraising**

Matching interests, ideas, and assets that have local relevance as well as broader appeal is a key way for MHP to leverage its position with a variety of partners, sponsors, and funders. Local partnerships, whether with a hospital, school, neighborhood association, business group, or social club provide building blocks to which city, state, or nation-wide groups with similar interests can be added. Corporate sponsors or charitable foundations are more likely to respond favorably when strong partnerships that represent intersecting interests. Some ways MHC could leverage local assets would be:

- 1) Approach the City RDA together with one or more neighborhood association to seek additional subsidy for meeting and activity space, for mutually beneficial business partnerships, or for local economic development initiatives. Rather than castigate the city for inadequate financial support, a value-added approach in which MHC, as well as other neighborhood partners benefit, would be more successful.
- 2) Programs that engage as well as benefit neighborhood partners, whether hospital workers, teachers, students, or senior housing residents, can leverage financial support outside the culture box. Philanthropies or sponsors with interest in health care, education, seniors, economic development, youth, or any number of areas likely will see more opportunity to provide support through well-formed partnerships. Arts funders likewise desire to have their money leverage other social benefits.
- 3) Some of the largest clusters of local businesses which include health care, automotive parts and repair, culturally-based foods, and personal financial services, may provide cash, in-kind products or services as well as the kinds of partnerships that can leverage outside resources. They should not be discounted. Strategically approaching appropriate businesses or groups to seek ideas and build programs is a place to begin. A classic adage in fundraising suggests that when one seeks money, they get advice. However, when one seeks advice, they get money. This plays out effectively when working with community and corporate partners, and especially with individual donors.
- 4) Creating a strategic identity around specific life transition celebrations, activities that promote health, or financial/immigration services (as described above) enhances the value of and demand for MHP as a location for such activity. This can result in greater rental income, while building bonds and loyalty with audience. Partnerships with related local business enterprises, especially those who serve such events, to set up concessions of various types can also serve as an ongoing source of income.

- 5) The national phenomenon of museums and performing arts venues holding monthly networking parties has created a major buzz for their hosts as well as new income sources. New York's Guggenheim and Brooklyn Academy of Music, Minneapolis' Walker Art Center, Hartford's Real Art Ways, and many others, generate considerable membership, sponsorship, and concession revenue from these parties. Social and business networking among professionals who take in the cultural ambience feel special and develop familiarity and loyalty to cultural institutions that bring them together. Working with local food-related businesses, MHP could develop a distinctive and popular destination while building on local relationships.
- 6) Well-formed and consistent partnerships, especially those with colleges, senior housing, and corporations can leverage support in the form of volunteers, and can build loyalty and work-of-mouth promotion. The wealth of such potential partners within the five-mile radius of MHP holds great promise to extend human resource capacities and audiences. As referred to above, these partnerships and the programs that spring from them, are strongest when institutional assets are all put on the table and when MHP adopts a role of seeking advice first.

## Appendices

### Appendix A: LIST OF PARTICIPANTS

#### Focus Group Participants:

Jim Gonzalez  
Janet Shriner  
Xavier Campos  
Mike Alvarado  
Teresa Castellanos  
Gil Hernandez  
Elsie Aranda  
Jennie Luna  
Poncho Guevara  
Jim Boales  
Juan Mendoza  
Lisa Jensen  
Joe B. Rodriguez  
Rosa T. Campos  
Juan Manuel Herrera.  
Betty Martinez  
Dolores Gatherwright  
Pablo Diego Viamontes  
Guadalupe Ortiz  
Mike Rodriguez  
Ron Mayorga  
Gerald Rodriguez  
Fred Yepiz  
Tedd Helen Johnson  
Darlene Tenes  
Michelle Valdez  
Cesar Plata  
Luis Gova  
Marilyn Guida  
Jaime Alvarado  
Aaron R. Resendez  
Elizabeth E. Barron  
Jessica Torres  
Marce Mora  
Jose Soto  
Mary Jane Solis  
Fernando P. Lopez  
Arturo Gomez  
Carlos Vazquez  
Margarita Rueda  
Victor Calisto Boul

Enrique Morales  
Victor Zaballa  
Martha Campos  
Tom Fredericks  
Chris Arriola  
Dr. Joel Herrera  
Richard Calderon  
Dolores Santa Cruz  
Robert Castro

City Staff and Officials:

Mayor Chuck Reed  
Hon. Forrest Williams  
Mignon Gibson  
Kay Winer  
Chris Constantin  
Carolyn Huynh  
Bill Ecker  
Dolores Montenegro  
Mary Jo McCully  
Eva Terrazas  
Sal Alvarez  
Kim Walesh  
Jeff Ruster  
Raymond McDonald  
Lawrence Thoo  
Barbara Goldstein  
Cindy Espinoza

San Jose Stakeholders

Susan Hammer  
Al Castellano  
Carmen Castellano  
Dan Keegan  
Tom McEnery  
Joe Nieto  
Sharon Gustafson  
Teresa Alvarado  
Blanca Alvarado  
Olivia Soza-Mendiola  
Les White  
Fred Salas  
Connie Martinez  
Dr. David Lopez  
Pete Carrillo  
Steve McCray  
Tamara Alvarado  
Henry Schiro  
Bruce Labadie

MHP Resident Art Partners

Teatro Vision

- Elisa Alvarado
- Raul Lozano
- Dianne Vega

SJMAG

- Viera Whyte
- Arlene Sagun
- Adaku Davis

Bay Area and National Stakeholders

Maria Rosario Jackson

*Urban Institute, Washington DC*

John Kilacky

*San Francisco Foundation*

Jaime Cortez

*San Francisco Foundation*

Moy Eng

*Hewlett Foundation*

Perla Rodriguez

*PG&E*

Sherry Wasserman

*Another Planet Entertainment*

John McGirk

*Irvine Foundation*

Lorraine Garcia-Nakata

*Children's Book Press*

Joshua Simon

*Northern California Community Loan Fund*

John Kridler

*Retired (SV Cultural Initiatives)*

Eugene Rodriguez

*Los Cenizontes Mexican Art Center*

Judy Nemzoff

*San Francisco Cultural Centers and Community Arts*

Laura Hansen

*Smithsonian Affiliates*

Harold Closter

*Smithsonian Affiliates*

Trish Newfarmer

*Commonwealth Club*

Marcela Medina

*Univision*

Tomas Benitez

*Plaza de la Raza (Los Angeles)*

MHC Staff

Marcela Davison Aviles

Leticia Pena

Maria de la Rosa

Sofia Fojas

Leigh Henderson

Ben Tan

Los Lupenos

- Tony Ferrigno
- Marco Antonio Chavez
- Esther Dareau
- Arturo Magana

MHC Board

Dan Ballesteros  
Martha Kanter  
Rudy Rodriguez  
Nick Pretedis

Site Visits:

India Community Center,  
Milpitas, CA

- Vishnu Sharma

East Bay Center for the Performing Arts, Richmond, CA

- Jordan Simmons

Dallas Latino Cultural Center,  
Dallas, TX

- Alejandrina Drew

Yerba Buena Center for the Arts,  
San Francisco, CA

- Ken Foster
- San San Wong

National Hispanic Cultural Center, Albuquerque, NM

- Eduardo Diaz
- Arturo Sandoval
- Adam Trujillo
- Carlos Vasquez
- Daniel Ortega
- Program Directors (8)
- Clara Apodaca

MECA: Multicultural Education & Counseling Through the Arts  
Houston, TX

- Alice Valdez
- Liz Salinas
- Frances Valdez
- Maestro Guerra
- Maestro Lopez
- Ana Medellin
- Macario Garcia
- Lizeth Gonzalez

## Appendix B: FOCUS GROUP QUESTIONS

1. What is *your understanding* of the mission of the Plaza?
2. Within the last year, how many events have you attended *at the Plaza*?
  - \_\_\_ More than 5
  - \_\_\_ Between 1 and 5
  - \_\_\_ Have not attended any event in the last year
3. Tell us which events you attended (list as many as you can remember)
4. Have you participated of any other event/activity sponsored by the MHC Corporation but that did not take place at the Plaza (for example, Mariachi Festival, school classes)?
5. Tell me *what* elements/aspects about the program(s) you attended you found particularly enjoyable.
6. Was there a particular event/program that you did not find enjoyable? If so, what aspect was not enjoyable?
7. What other programs that have not been mentioned so far do you believe would be compatible with the size, location, and mission of the Plaza?
8. If it were up to you to define the key groups of people who should be attending events at the Plaza, who would be your top 3 groups?
9. Let's talk about the Plaza operator, MHC. What does the Corporation do best (what is it really good at)?
10. What is the Corporation not so good at? (What areas need improvement)?
11. What components or aspects of the physical facility work best? (are either most attractive or most functional)
12. What aspects or components of the physical plant would you improve upon?
13. If you had an opportunity to speak to the MHC Board of Directors today, what 3 things would you urge them to do immediately?
14. What kinds of programs will inspire you to make a personal financial contribution or increase your financial contribution to the Plaza? At what level would you give right now?
15. What comes to mind when you hear the word "Plaza"?
16. What comes to mind when you hear the words "Mexican heritage"?
17. What do you believe should be the role of the Plaza in relation to:
  - Other Latino cultural organizations in San Jose?
  - Other Latino cultural organizations in the greater Bay Area?
  - Latino consumers of live commercial entertainment in San Jose and the Bay Area?
  - Mainstream (non-Latino) art organizations that do Latino programming?
18. *Who* should be responsible for paying *what* at the Plaza?

- City should be responsible for \_\_\_\_% of \_\_\_\_\_
- MHC Corporation should be responsible for raising \_\_\_\_% for \_\_\_\_\_
- City and MHC should share responsibility for \_\_\_\_\_
- Individuals community members should be responsible for \_\_\_\_\_
- Other: \_\_\_\_\_

19. What do you hope to see happen or accomplished as a result of the Studies about the Plaza the City is conducting?

20. Is there anything else we should have talked about, but didn't?

## Appendix C: CORRECTED PLAZA SQUARE FOOTAGE

Theater Building	22,472
Gallery	3,000
Rentals Office	1,118
Pavillion	3,600
Plaza Main Quad	18,000
Garden	24,000
Classrooms	1,609
Offices	2,869
Kitchen	531
Other Interior Miscell.Areas	3,302
Parking Lot	130,700
Alum Rock Retail Pad	10,000
Total Interior	80,502
Total Exterior	140,400
Total Interior & Parking Lot	211,202
Total Compound	221,202

## Appendix D: THEATER RATES COMPARISON

Prepared in collaboration with Leigh Henderson.

	Seats	Non-Profit Base Rental Rate - Saturday Performance	Notes	Estimated Real Cost of an average 1-day Saturday performance rental (including house staff, tech staff, tech equipment, use of green room and dressing rooms, additional theater preservation and patron fees)
MHP Theater	500	\$ 1,900	Non-union labor	\$3,000 - \$3,500
California Theater (SJ)	1,119	\$1,800	Union labor, \$1 / audience member preservation fee	\$5,000 - \$5,500
Yerba Buena Center /San Francisco	757	\$1,600	Union labor	\$3,000 - \$3,500
Sobrato Theater (SJ Rep)	500	\$ 1,500	Labor status unknown	\$3,000 - \$3,500
Campbell Heritage Center	800	\$650 or 10% of gross, whichever is higher plus \$125 for use of sound system plus \$400 for use of lighting equipment	Labor status unknown, \$1 / audience member preservation fee	\$3,000 - \$3,500
Mountain View Center for the Performing Arts	589	\$ 1,050 (or 10-20% of gross)	House staff included in base rental, dressing room and green room not included	\$3,000 - \$4,000
Soto Theater (CET)	500	For Profit: \$2,500 Nonprofit is Negotiable		Unknown
Montgomery Theater	500	\$ 500	Union labor, \$1 / audience member preservation fee	\$2,500 - \$3,000

**Appendix E: "Analysis of the Operations and Maintenance  
Agreement between the City and the Mexican Heritage  
Corporation" prepared by Strategic Philanthropy Advisors, LLC**



(see attached document)

## Acknowledgments

First and foremost, we are grateful to the many people who agreed to talk to us and share their ideas. Without their interest and participation, there would be no "community" findings to reference.

We are grateful to the MHC staff and Board members who made themselves available to answer questions and provide needed information.

We are grateful to all City staff that assisted us in carrying out the research process. The assistance and support of Mignon Gibson, Michael Houston, and Kay Winer were invaluable. We also recognize the valuable assistance of Eva Terrazas at the San Jose Redevelopment Agency and of Jeff Ruster and Kim Walesh in the final stages of preparation of this Report.

We are grateful to Yolanda Alindor at the San Francisco Foundation for helping set up the meeting of art professionals in San Francisco.

We are grateful to Alina Kwak and Magaly Ramos-Cartagena for serving as recorders in the Focus Groups and assisting with set up and logistics.

Maribel Alvarez is grateful to the University of Arizona for the release time to work on this project.

We are grateful to our family, friends, and loved ones for their support during the last six months.

Last, but certainly not least, we are grateful and indebted to Margaret Southerland, Principal of Strategic Philanthropy Advisors, LLC for her steadfast support, thorough analytical work of the Plaza's O&M historical costs; and professionalism. This study and this Report would have been largely diminished had it not been for her valuable assistance.

# Strategic Philanthropy Advisors

DRAFT

## **Analysis of the Operations and Maintenance Agreement between the City of San Jose and the Mexican Heritage Corporation**

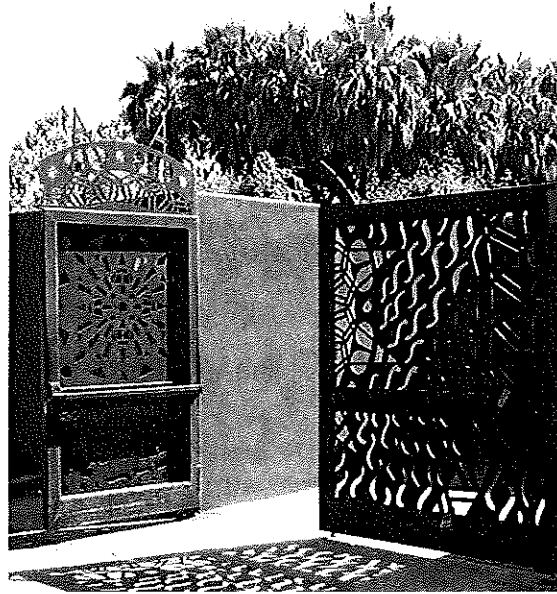
*Submitted to*

**The City of San Jose and the San Jose Redevelopment Agency**

*Submitted by*

**Strategic Philanthropy Advisors, LLC**

**January 10, 2008**



## Table of Contents

1. Introduction	Page 3
2. Executive Summary	Page 6
3. The Operations and Maintenance Agreement between the City San Jose and Mexican Heritage Corporation	Page 13
4. How Much Does It Cost to Operate and Maintain the Plaza?	Page 17
5. Various Scenarios for the City of San Jose to Consider as it Relates to the Operations and Maintenance Agreement	Page 32
6. Mexican Heritage Corporation's Financial Requests to the City of San Jose as Operator and Programmer of the Plaza	Page 36



## Introduction

Strategic Philanthropy Advisors, LLC was commissioned by the City of San Jose in partnership with the San Jose Redevelopment Agency to undertake a financial feasibility assessment of the Mexican Heritage Corporation (“MHC”), the nonprofit operator of the City-owned Mexican Heritage Plaza (“Plaza”) located at 1700 Alum Rock Avenue in San Jose in the Mayfair and Alum Rock community. This assessment was conducted in tandem with another consulting project led by Dr. Maribel Alvarez and Tom Borrup (“Plaza Consultants”) that assessed the viability of the Plaza’s existing operating model in terms of programs, vision, best practices, and community buy-in.

We have been asked to evaluate MHC’s historical and current financial capacity; undertake an administrative and operational review of the organization; review its current legal obligations; review a draft Business Plan MHC presented to the City and to which the City Auditor found to be not fully developed; and work with MHC as it revises its Business Plan.

The Plaza Consultants started their assessment a month earlier than Strategic Philanthropy Advisors, LLC and our final report is due more than two months later. We plan to start working with MHC on its revision of its Business Plan after the CEO and Board of Trustees has had time to review and analyze the findings by the Plaza Consultants regarding the best use(s) for the facility and the community’s aspirations regarding its use as well as the type of programming content it wants the operator to provide at the Plaza.

It has become apparent to us that one of the core issues centers on the cost of running the Plaza annually and the amount of the City’s annual Operations and Maintenance (“O&M”) subsidy paid to MHC as operator. How much has it cost to run the Plaza over the last five years?

The Operations and Maintenance Agreement (“O&M Agreement”), signed by the City and MHC in March 1996, outlined the “programmatic and organization” support that the City pledged to provide MHC as Plaza operator from 1996/97 to 1999/2000, and the “maintenance and operations” support it agreed to provide starting in 1998/99 and annually thereafter. The current annual O&M subsidy is \$413,783 per year.

In a letter to the former City Manager, from the President and CEO (CEO) of MHC, dated June 5, 2006, the CEO stated; "Today, the City of San Jose provides less than one-half of the cost of facility maintenance, thus adding an operating burden to a young startup organization without sufficiently developed income sources. This puts the Plaza at a fundamental operating disadvantage that impacts its financial stability and degree of programming delivery."

Is the cost of operating and maintain the Plaza causing a financial burden on MHC? Is the magnitude of expenses related to the buildings, garden and parking lots responsible for a great deal of the organization's financial challenges over the last several years or since the Plaza opened? The Plaza Consultants' study will reveal that the community views the answers to these questions as central to the question regarding the facility's optimal uses.

How is "operations" and "maintenance" defined? What types of expenses should be included and what kinds of expenses should be excluded in the definitions as it relates specifically to the Plaza? Some of the terms in circulation (used interchangeable to refer to O&M) are: "facility maintenance," "facility upkeep," "occupancy costs," "operating costs," and "bricks and mortar." Does the definition of O&M include staff costs? How does the definition of O&M by the community compare to MHC's definitions and how do they relate to the definition of O&M as outlined in the O&M Agreement?

The answers to these questions have a direct relationship to how one calculates the costs to run the Plaza from an operational and maintenance standpoint. Each set of assumptions embedded in these question lead to a set of conclusions. This in turn correlates to the City's O&M subsidy and whether or not the amount provided annually is sufficient to cover such costs if, in fact, the O&M Agreement even requires the City to provide 100 percent of O&M costs. Or, if the City is not required to provide 100 percent of O&M costs, are there expectations held within the community (as revealed from the Plaza Consultants' fieldwork) that the City *should* be providing enough money each year to pay for all of the costs associated with operating and maintaining the Plaza?

MHC has had many conversations with the City and the two consulting teams over the last five months regarding its desire for an increased annual O&M payment and other financial remunerations. We asked MHC to provide to us in writing these requests and they are included in this report. As these financial terms are so much greater than what is currently being provided, Strategic Philanthropy Advisors, LLC felt that it was prudent to present the following assessment now in which we outline our findings related to how much we determined it cost to operate and maintain the Plaza over the last five years as well as our appraisal of the O&M Agreement before our complete report is due to the City. We also felt that it would be helpful for the City to read our O&M report in conjunction with the Plaza Consultants' report.

Strategic Philanthropy Advisors, LLC is not a law firm; there are no attorneys on the consulting team, nor any accountants. While we have a great deal of experience in the financial sector and the Project Leader, Margaret W. Southerland, Principal, has a banking and foundation background, our expertise is in the nonprofit sector. We have, used our professional and banking knowledge to determine how much it cost MHC to operate and maintain the Plaza over the last five years by reviewing and allocating 3,266 General Ledger line items contained in MHC's Profit and Loss Statements for its fiscal years ended 2003 through 2007. We also analyzed MHC's audited financial statements and a great deal of other information provided to us by the organization.

The purpose of this Report is to provide information that will assist MHC's CEO and Board of Trustees and City staff and officials in addressing the predicaments over the management of the Plaza that they have faced in recent years. It is not our intent with this information to prescribe or foreclose any specific course of action. Any administrative and operational capacity issues implied by our findings can be addressed by the MHC organization and the City subsequent to this Report. The central issue comes back to the cost of operating the facility and the annual O&M subsidy. We have outlined several different financial scenarios related to O&M for consideration by the City.

Strategic Philanthropy Advisors, LLC is not in a position to decide how much money San Jose tax payers should provide to the organization annually nor recommend which of the several "best uses" for the Plaza is the most advantageous for the City. It would also not be appropriate for us to tell MHC's Board of Trustees whether it should remain at the Plaza as operators and programmers or, whether it would be best for them to concentrate solely on the Mariachi Festival and Mariachi Youth Education, or whether they have reached a point in their organizational lifecycle that merits considerations of more substantial financial and programmatic reorganization. We are in a position, however, to inform the conversation about the historical cost of operating the Plaza and how this financial data can be used by the two entities in discussions about the future of the Plaza and its operations.



## Executive Summary

Strategic Philanthropy Advisors, LLC analyzed 3,266 general ledger line items from MHC's Profit and Loss statements for its fiscal years ended 2003 to 2007 in order to calculate how much it cost the organization to operate and maintain the Plaza over this period.

We began our research using expense categories and dollar totals by year for the fiscal years ended 2003 to 2007 based on audited financial statements provided to us by MHC in a chart titled "MHC Occupancy Expenses." We reconciled the expense categories and amounts with corresponding General Ledger ("GL") categories and line items from the Profit and Loss statements that were provided to us by MHC.

We removed specific line item expenses that did not pertain to costs associated with running the facility and were instead directly related to programs such as MHC Presents, Mariachi Festival, Arts Education, Visual Arts Program, and weddings, quinceañeras and other events held at the Plaza. (We were able to review and sort costs by GL code; department; GL title; ID, which often contained vendor name; effective date; transaction description; and debit or credit amount.) If there was not enough information to determine why a charge was incurred, who the vendor was who provided the services or where an item was purchased, we gave MHC the benefit of the doubt and included the cost in our O&M totals. Next we added relevant expenses from categories we felt MHC overlooked but were indeed, in our opinion, costs necessary to run the facility such as permits, general liability insurance, retrofitting the Gallery, and supplies.

We compared each year's total costs to that year's City's O&M subsidy provided to MHC in return for the organization operating and maintaining the City-owned Plaza. MHC also receives use of the theater, galleries, gardens, Pavilion, Plaza, classrooms, and office space that make up the Plaza facility, and is able to generate income by renting these facilities to the public. MHC pays the City annual rent of \$1 each year.

Strategic Philanthropy Advisors, LLC determined that this subsidy, which totaled \$428,265 in FYE 2003 (included a one-time cost of living adjustment of \$14482), \$413,783 in FYE 2004-2006, and \$588,783 in FYE 2007 (included a one-time special additional payment of \$175,000) was more than adequate to cover the operations- and maintenance-related costs for the facility. In fact, there was a surplus each year, and over the five year review period, this surplus totaled \$790,080.

	FYE 2003	FYE 2004	FYE 2005	FYE 2006	FYE 2007	Totals 5-Years
City O&M Agreement Subsidy	\$413,783	\$413,783	\$413,783	\$413,783	\$413,783	\$2,068,915
City One-Time Cost of Living Subsidy	\$14,482	-	-	-	-	\$14,482
City One-Time Additional Funding	-	-	-	-	\$175,000	\$175,000
Total City O&M Payments Received	\$428,265	\$413,783	\$413,783	\$413,783	\$588,783	\$2,258,397
Consultant-calculated O&M Expenses	\$329,171	\$311,750	\$254,346	\$300,421	\$272,628	\$1,468,317
Difference without staff costs	\$99,094	\$102,033	\$159,437	\$113,362	\$316,155	\$790,080

The City and MHC's O&M Agreement, dated March 1996, states the following:

*"MHC is expected to raise annual operating funding from outside funders, including corporations, foundations, individual donors and government grant-making agencies. MHC is also expected to generate revenues to pay for a portion of its annual operating expenses through ticket sales, memberships, rentals, sales of goods and services and other sources. MHC shall be solely responsible for the management of fiscal resources of the organization each year, and should not look to the City for supplemental funding."*

The O&M Agreement contains a four-page matrix that clearly lists which items either of the two entities (MHC or the City) is required to service; cover preventative maintenance; pay for scheduled and/or emergency repairs; fund minor replacements; and pay for unit replacements.

The O&M Agreement states: "City's funding assistance ... *is intended to supplement* MHC's other funding sources", which we interpret to mean that under the contract terms, the City's annual O&M subsidy was never meant to cover 100 percent of the costs associated with operating and maintaining the facility. Our analysis of the financial data, in fact, has shown that the subsidy has actually done just that; it has covered 100 percent of the costs to operate and maintain the Plaza as outlined in the O&M Agreement.

As previously noted, the Plaza also generates earned income for MHC when it is rented to the public; to corporations, nonprofits, Resident Art Partners (RAPs), and individuals. It also receives grants from foundations, individuals, and other sources that help pay for general operating expenses. It also receives grants from entities, such as the Office of Cultural Affairs, specifically designated for MHC's programs such as Mariachi and youth education.

In fact, MHC has received a great deal of funding from various City budgets since the San Jose Redevelopment Agency built the Plaza for over \$33 million. The organization received start-up funding of \$885,480 prior to the Plaza's opening; a zero-interest loan of \$650,000 in July 2000; a special grant of \$500,000 in October 2001, Arts Grant Funding of almost \$240,000 for its fiscal years 1997 to 2002; and Office of Cultural Affairs Festival, Parade and Celebration Grant funding for this same period of over \$55,000. These amounts total almost \$2.8 million. City contributions from all sources, including O&M, for FYE 2003 to 2007 are provided by category in the following chart:

City Contributions to MHC FYE 2003 to FYE 2007						
	FYE 2003	FYE 2004	FYE 2005	FYE 2006	FYE 2007	Totals 5-Years
City O&M Agreement Subsidy	\$413,783	\$413,783	\$413,783	\$413,783	\$413,783	\$2,068,915
City One-Time Cost of Living Adjustment	\$14,482					\$14,482
City One-Time Additional Funding					\$175,000	\$175,000
Office of Cultural Affairs Arts Grant	\$118,129	\$187,135	\$120,214	\$60,839	\$71,728	\$558,045
Office of Cultural Affairs Festival, Parade, and Celebration Grant	\$30,000	\$0	\$20,000	\$20,133	\$20,195	\$90,328
Parks, Recreation and Neighborhoods Services Grant	\$100,000	\$89,000	\$75,650	\$0	\$0	\$264,650
RDA/City Mariachi Festival Marketing					\$99,000	\$99,000
Total	\$676,394	\$689,918	\$629,647	\$494,755	\$779,706	\$3,270,420

As the City's annual O&M subsidy covers 100 percent of O&M costs, any money generated from renting the facility can be used by the organization for whatever purpose it deems appropriate.

It also means that the RAPs have not been a financial burden on the corporation in the way it has been described. It is true, however, that the organization could have generated more income during the five year review period if the RAPs were charged MHC's nonprofit rate instead of the reduced rate agreed to by all of the entities in the "Mexican Heritage Corporation Resident Arts Program Operating Agreement" in July 2001.

The O&M Agreement does not specifically reference staff costs. Is there enough of a surplus to cover all of MHC's staff positions? The answer is "no."

MHC has informed the Consultants and the City that the annual subsidy should pay 100 percent of the staff salaries and benefits for the following positions listed in the chart below. The salaries and benefits expense totals assume that all staff positions are full-time and staff is paid for a full fiscal year that began July 1, 2007 even if this is not what has transpired. (More detail can be found in the footnotes of MHC's salary and benefit charts beginning on page 26 of this report.)

The CFO and Accounting Manager positions are currently provided by part-time consultants and the expense total listed for these "positions" is based on a full year of consulting fees charged for their services.

MHC's Requests the Following Staff Positions be Paid by the City and Included in its Annual O&M Subsidy				
<i>Information is from Budgeted 2008 Salaries &amp; Benefits</i>				
Staff/Consulting Position	# of Months on Staff	Salary	Benefits	Total Salary and Benefits
Accounting Clerk	12	\$31,200	\$3,744	\$34,944
CFO and Accounting Manger *	12	\$77,400	\$0	\$77,400
Custodian	12	\$24,960	\$9,984	\$34,944
Customer Relations Associate and Assistant to the CEO	12	\$39,520	\$7,904	\$47,424
Director of Operations	12	\$70,000	\$11,200	\$81,200
Facilities Evening Supervisor	12	\$20,800	\$4,784	\$25,584
Facilities Maintenance Manger	12	\$72,000	\$25,920	\$97,920
Facilities Rentals Associate	12	\$33,280	\$4,659	\$37,939
Facilities Rentals Manager	12	\$55,328	\$11,066	\$66,394
President, CEO, and Executive Producer	12	\$150,000	\$15,000	\$165,000
Theater Technical Director	12	\$45,032	\$13,960	\$58,992
	<b>Total</b>	<b>\$619,520</b>	<b>\$108,221</b>	<b>\$727,741</b>
* Consultants				
<i>Data supplied by MHC</i>				

We calculated how much the staff positions listed in the chart above would have cost from FYE 2003 to FYE 2007. Some of the staff positions did not exist in prior years so we only totaled the actual costs.

	FYE 2003	FYE 2004	FYE 2005	FYE 2006	FYE 2007	Totals 5-Years
City O&M Agreement Subsidy	\$413,783	\$413,783	\$413,783	\$413,783	\$413,783	\$2,068,915
City One-Time Cost of Living Subsidy	\$14,482	-	-	-	-	\$14,482
City One-Time Additional Funding	-	-	-	-	\$175,000	\$175,000
Total City O&M Payments Received	\$428,265	\$413,783	\$413,783	\$413,783	\$588,783	\$2,258,397
Consultant-calculated O&M Expenses	\$329,171	\$311,750	\$254,346	\$300,421	\$272,628	\$1,468,317
MHC's Proposed Staff Costs (Including Constants in Lieu of Full-time Staff) (Salaries & Benefits)	\$360,312	\$435,371	\$442,860	\$404,047	\$522,094	\$2,164,684
Difference	-\$261,218	-\$333,338	-\$283,423	-\$290,685	-\$205,939	-\$1,374,604

If the City agrees with MHC that it should have been paying for all of the staff positions contained in MHC's current request over this five year period, the City O&M subsidy would have been short between approximately \$206,000 to \$333,000 each year for a total of \$1,374,604 for the five-year period.

We note, however, that the following positions have many responsibilities and as such, are involved in many aspects of the organization including numerous programs. This means that each person does not spend 100 percent of his or her time on operating and/or maintaining the Plaza: CEO, CFO, Accounting Clerk, Account Manager, Customer Relations Associate/Assistant to the CEO, and Director of Operations. While the Facilities Rentals Associate and Facilities Rentals Manager are responsible for renting the facility to the public and generating earned income for MHC, they are

also responsible for booking events and programs at the Plaza that are part of MHC Presents and other MHC programs.

Best practices in nonprofit budgeting specifically recommend that all direct expenses be allocated to programs while indirect costs are assigned to programs based on a portion of the organization's total program expenses or weighted by some other means. Administrative staff expenses (CEO, CFO, Accountants) and fundraising staff expenses (Development Director, Development Consultant, or Fund Development Director), are typically allocated by percentage to each program. Our preferred methodology is to allocate administrative and fundraising staff expenses to programs based on percentages of staff time spent on each program. As an example, because MHC's CEO is also the Executive Producer of the Mariachi Festival, the amount of her salary and benefits that equal what ever percentage of her time is spent on this festival and related education workshops should be allocated specifically to this program budget. The same is true for the time that the CEO spends on MHC Presents. Therefore, in our opinion, it would not make sense to include 100 percent of the CEO's salary and benefits in the organization's O&M costs for the Plaza. The same is true for the CFO, two accounting positions, Assistant to the CEO, as well as the Director of Operations as each position is also involved in all aspects of running the organization.

While the Plaza Consultants will discuss their finding regarding the community's definitions of operations and maintenance in depth, we understand from our own interviews and research that the majority of the community wants the City to pay for basic staff costs necessary to run the facility. These positions are comprised of the following: Custodian; Facilities Evening Supervisor; Theater Technical Director, and Director of Operations/Operations Manager/Facilities Maintenance Manager. (While the title has changed over the years we have tracked the costs by individual employee/position. We did not feel it was appropriate, however, to list the former and/or current employees by name.) We refer to this staff scenario as "Basic Staff Costs" as these are the minimum staff positions needed to make sure that the facility is cleaned, maintained, safe, and can be utilized by the public.

The question then becomes whether or not the City's O&M subsidy has covered the operations and maintenance costs for the Plaza as well as the "Basic Staff Costs" needed to take care of and operate the facility over the same five-year period.

	FYE 2003	FYE 2004	FYE 2005	FYE 2006	FYE 2007	Totals 5-Years
City O&M Agreement Subsidy	\$413,783	\$413,783	\$413,783	\$413,783	\$413,783	\$2,068,915
City One-Time Cost of Living Subsidy	\$14,482	-	-	-	-	\$14,482
City One-Time Additional Funding	-	-	-	-	\$175,000	\$175,000
Total City O&M Payments Received	\$428,265	\$413,783	\$413,783	\$413,783	\$588,783	\$2,258,397
Consultant-calculated O&M Expenses	\$329,171	\$311,750	\$254,346	\$300,421	\$272,628	\$1,468,317
Basic Staff Costs (Salaries & Benefits)	\$152,730	\$184,224	\$183,021	\$195,517	\$206,998	\$922,490
Difference	-\$53,636	-\$82,191	-\$23,584	-\$82,155	\$109,157	-\$132,410

According to our analysis, the answer is "no" and the O&M funding deficit under this scenario varies from year to year, impacted by the total cost to operate and maintain the Plaza as well as the staff salaries and benefits paid to the staff positions that we consider included in the "Basic Staff Costs" scenario referenced above.

Over the five-year period, there was a total deficit of over \$132,000 after the O&M expenses and “Basic Staff Costs” salaries and benefits were paid. Staff salaries and benefits also increased over 35% or over \$54,000 over this period for these four positions, with the largest increase in total compensation paid to the Director of Operations/Operations Manager. We note these positions are identified by MHC as Facilities Maintenance staff in its new FYE 2008 program budget; however, another operator of the Plaza might have another configuration for the positions to be included in “Basic Staff Costs.” Furthermore, another Plaza operator might offer different compensation, or may organize its personnel and/or achieve different staff efficiencies.

As our analysis of MHC’s financial statements show, the annual O&M subsidy of \$413,783, as outlined in the current O&M Agreement, has only been sufficient to cover the operations and maintenance costs incurred by the operator but not enough to also cover the minimum staff necessary to keep the lights on, clean the facility and make it available so that it can be used by the community if it wants to rent out the Plaza. Historically in order to cover these additional staff costs as well as the Consultant-calculated O&M expenses, the City would have needed to increase its annual O&M subsidy between \$16,000 and approximately \$82,000 per year. In the last fiscal year, the annual O&M subsidy received by MHC was much greater than outlined in the O&M Agreement as the City provided a special one-time additional payment of \$175,000. If the payment to MHC had not been increased, the organization would have been short \$65,843 to cover “Basic Staff Costs” salaries and benefits.

If the City intends to cover 100 percent of the operating and maintenance expenses of the Plaza as well as “Basic Staff Costs” needed to oversee the facility itself, the City will need to slightly increase the annual O&M subsidy MHC receives from its current level of \$413,783. This amount will need to be increased each time MHC awards raises to its staff members that comprise the “Basic Staff Costs” scenario.

## Overview of MHC's Requests to the City of San Jose – as Operator and Programmer of the Plaza

MHC is requesting that the City increase its annual O&M subsidy of \$413,783 by \$886,217 to \$1,300,000 with annual cost of living increases.

We have outlined MHC's general requests by quoting MHC's CEO directly from an email that she sent to us on December, 20, 2007. We have added a few notes in italic for clarification. More detail on MHC's full request can be found at the end of this document. We also quote MHC's CEO in this section as well.

"1) If the City and MHC mutually agree on a new operating model and programming vision, then the cost to support that model and vision, and the source of funds, must also be determined. Assuming there would be agreement on cost, we believe some sort of funding plan would include City funds, funding from philanthropy and earned revenue. It may or may not include a private sector financing partner."

*This references naming rights for the Plaza or parts of the facility. In other correspondence with MHC, it has stated that it requests an annual O&M subsidy of \$1,300,000 per year with cost of living increases. It would also like to explore with the City bonus payments for mutually agreed targets related to the Plaza. These include creating incentives in energy usage and "greening" the facility as well as those related to revenue production and arts programming.*

"In determining the amount of the capitalization of this new model MHC will ask for:

a) re-characterization of its present debt to the City as a grant or forgiveness of the loan."

*The loan was made in 2000 for \$650,000 at zero percent interest. Currently \$500,000 is outstanding.*

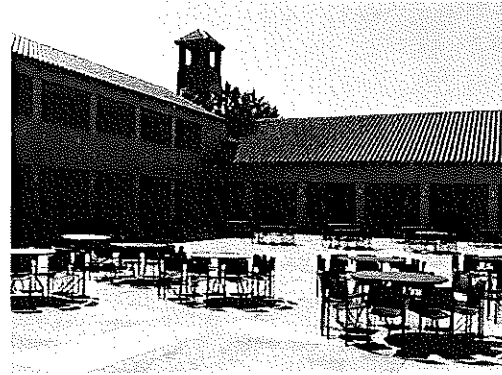
"b) reimbursement of the sums expended by MHC to subsidize the RAP in an amount to be mutually agreed upon."

"c) compensation to MHC for its recent \$1 million plus investment in the plant in an amount to be mutually agreed upon."

*This reference is to a \$1,000,000 grant that MHC and the San Jose Redevelopment Agency jointly applied for in 2002, with funding received from the State of California in 2006 and 2007. Its purpose was to make capital improvements at the Plaza and was spent on upgrading the HVAC system, landscaping and other facility enhancements. The cost of the work did not exceed the grant. The Redevelopment Agency of San Jose and MHC jointly administered the project.*

*In a separate email from the CEO, she stated that the forgiveness to the loan should be tied to the compensation for the \$1,000,000 capital improvements made to the Plaza and that this would equal the forgiveness of the outstanding loan amount and "reimbursement" for the amount already paid back on the loan. Further clarification is needed from MHC as to whether or not these two items are indeed related or should be treated separately.*

"2) If MHC is not selected to be the operator or if the new vision for the Plaza is not synergistic with MHC's mission and MHC's Trustees determine to terminate MHC's status as Plaza operator, then MHC would seek to negotiate an appropriate financial settlement with the City. The basis of the negotiation would focus on receiving compensation for b) and c) above, among other items."



## **The Operations and Maintenance Agreement between the City of San Jose and Mexican Heritage Corporation**

The O & M Agreement between the City of San Jose and Mexican Heritage Corporation (MHC) is dated March 7, 1996 and covers the operation and maintenance of what was originally called the Mexican Cultural Heritage Gardens project and is now called the Mexican Heritage Plaza. The agreement was entered into by the two parties before the construction of the facility was finished and it affirmed that the Redevelopment Agency of San Jose ("RDA") planned to transfer the site and the facilities to the City pursuant to a cooperation agreement between the City and the RDA dated March 25, 1996. After construction, the City owned the site and facilities and not the organization managing the property.

### **Recitals**

The recitals section of the agreement state that the MHC is a California nonprofit corporation and is qualified under Internal Revenue Code section 501(c)(3). It is interesting to note that while MHC already existed as a nonprofit organization and presented community programs such as the Mariachi Festival, the agreement states that MHC was "organized for the purpose of developing, operating, and maintaining the facilities" and was to do so "in a manner that will enhance the City and best serve the needs of the community."

Another recital is MHC is governed by a Board of Directors, now called Trustees, "comprised of representatives of the community in which the Facilities will be located", implying that those with the fiduciary responsibility for the organization will live in the Mayfair and Alum Rock community surrounding the Plaza or at least in San Jose.

The Agreement notes that MHC "was organized for the purpose of developing, operating, and maintaining the facilities in a manner that will enhance the City and best serve the needs of the community." It also notes that "MHC has the necessary skill, background and expertise to operate and manage the Facilities on behalf of the City and desires to do so." The Trustees of MHC agreed that the nonprofit had the skill and experience to manage the property when in fact it had never operated and managed a facility with a 500 seat theater, gallery, gardens, pavilion, parking lot, classrooms, and office space before 1996.

### **Term**

The term of the O&M Agreement is 15 years from the possession date, allowing for the term to be extended for two additional 10 year periods for a maximum term of 35 years. After this period, if the two entities wish to continue the arrangement, the City and MHC are “to meet for the purpose of negotiating a subsequent agreement on mutually acceptable terms.” The document also has provisions for termination.

### **Facilities Standards**

The agreement sets three standards for MHC to operate and manage the facilities:

A.) “To provide the highest quality of artistic and cultural programming to visitors to, and residents of, the city of San Jose” in accordance to an attachment which lists the mission or statement of purpose of the Plaza; a concept or user resource for the facilities; an educational philosophy which focuses on community resources and its relationship to the programs, services, performances, exhibits at the Plaza by MHC.

B.) “To make the Facilities available to the Public” as more fully described in another section which in broad terms discusses admission fees, MHC’s “sole and full responsibility for managing, monitoring and supervising all use of the facilities.”

C.) “To develop and maintain a capable, experience professional staff to operate the Facilities in a first-class manner.”

Attachment B of the O&M Agreement outlines ‘MHC’s Use (Or Permitted Use.)’ Three of these requirements outline a vision for the Plaza and how all of the facilities will be utilized by the community *or* to serve the community:

- “To the extent the Facilities are not programmed by MHC or its resident groups, MHC will make the Facilities available to other community and arts groups for performances, exhibitions, events and rehearsals.”
- “In general, MHC shall give first preference to San Jose groups funded by the City through Arts Commission programs. Second preference will be given to other San Jose-based groups, followed by all other groups.”
- “The goal of City and MHC is to serve the community by the maximum utilization of the Facilities for public performances, classes, exhibitions and recreation.”

### **City and MHC Funding**

As already noted in the Executive Summary of this report, the O&M Agreement provides a clear directive to MHC that it is “expected to raise annual operating funding from outside funders” in addition to a schedule of funding assistance that the City agreed to give the organization as operators and programmers of the Plaza.

The City initially provided “programmatic and organizational support” to the organization until the end of fiscal year 2000. This support totaled \$683,221 and was intended to help the organization transition from a small community-based nonprofit to one that was responsible for not only programming but also operating a large facility that included a theater, gallery, gardens, and

classrooms. Although this direct programmatic and operational support ended after four years, it was expected that MHC would apply to the Office of Cultural Affairs for competitive arts grants funding for the programs that it would be offering at the Plaza. To our knowledge, MHC has applied to the Office of Cultural Affairs each year and has been awarded for its efforts with at least one grant annually.

Additional funding support called “maintenance and operations” for the Plaza was also outlined and is, of course, the focus of this report. The support totals \$413,783 per year.

### **Maintenance and Repair Matrix**

The Agreement contains a maintenance matrix that outlines in great detail which entity (City or MHC as nonprofit operator) is responsible for operating or servicing; scheduling planned maintenance (preventative); scheduled and emergency repairs; minor improvement; and for unit replacement for numerous items. These elements relate to the following:

- Structural facility;
- HVAC/electrical systems;
- Plumbing;
- Building safety systems;
- Furniture, fixtures, and equipment;
- Theatrical presentation systems;
- Landscaping;
- Outdoor structural elements;
- Outdoor plumbing and irrigation;
- Outdoor lighting;
- Outdoor furniture, fixtures, and equipment; and
- Parking lots.

The O&M Agreement is clear that MHC “shall provide at its sole cost and expense janitorial and maintenance services to the Facilities necessary to maintain the Facilities in a clean and serviceable condition for viewing and touring by the public.” MHC is supposed to contract and pay for these services as well as an electronic security system and security services. While the City’s O&M subsidy could be used to pay for these expenses, the City would not be contracting for the services and paying the bills directly.

### **Budgets and Audits**

MHC is required to submit to the City the following financial information:

1. MHC’s annual budget for the Plaza for “review, analysis and comment.”

In addition, all subsequent budget revisions are to be reviewed by the City as well. Detailed information regarding projected income and expenses is to be submitted in addition to comparisons to budgeted and actual income and expenses for the prior fiscal year.

2. All submitted budgets and financial statements “shall contain a separate expenditure category entitled “Building Operations and Maintenance Costs.” This itemized financial information is to include “an exhibit detailing the costs to operate and maintain the facilities.” The agreement also requires the organization’s budget for building operations and maintenance costs “be approved by the City.”
3. Financial statements of income and expenses for six months and 12 months of each fiscal year.
4. Audited Financial Statements within 160 days after the end of the organization’s fiscal year, duly certified by an independent certified public accountant.
5. A performance report for the year (after the fiscal year ended and accompanying the Audited Financial Statements) showing “operational performance, including without limitation, attendance, number and type of programs and outreach efforts.”
6. MHC shall include in its annual budget “a minimum contribution of three percent of the budget to a cash flow reserve.” MHC is required to make contributions to the reserve account until the amount in the account “has reached twenty-five percent of its annual operating budget. Other terms are outlined regarding this account and the amount of the reserve needed to be maintained over the term of the O&M Agreement and subsequent extensions, if they are entered into between the two entities.

It is unfortunate that the City and MHC have drifted from all of these financial reporting requirements over the years because they would have been useful tools for each of the partners to access how expensive it was for MHC to operate and maintain the Plaza since the facility opened as well as how the operational expenses were being budgeted by the organization over the last eight years.

MHC did indeed present the City with Audited Financial Statements and even basic organizational budgets for each of its fiscal years. An organizational shortcoming is that MHC never created specific program budgets for all of its programs until this fiscal year, and even this year’s budget (07/08) was finalized halfway through its fiscal year (in December) by the staff and is to be reviewed and potentially approved by the Board of Trustees at their January 2008 meeting. The Plaza is most certainly a program albeit with two components; facility and rentals. There are both direct and indirect costs associated with any nonprofit budget and this topic will be discussed in the Scenarios section.



## How Much Does It Cost to Operate and Maintain the Plaza?

This section will have text that accompanies eight data charts that should be read progressively.

### Chart 1: MHC-supplied O&M Expenses

MHC supplied both consulting teams with financial data on its occupancy expense expenditures for the fiscal years ended 2003 to 2007. We were informed that the data was from the audited financial statements. No staff salary and benefit costs were included. The only expenses listed were those related to facilities maintenance and those required to operate it on a day-to-day basis. Such expenses included cleaning, utilities, security, and maintenance items.

In each year, MHC's supplied operation and maintenance expenses totaled less than that year's annual operations and maintenance subsidy provided by the City. This subsidy totaled \$413,783 per year with the exception of FYE 2003 when the organization received a one-time cost of living increase of \$14,482 for a total payment of \$428,265 and in FYE2007 when the City provided a special one-time payment of \$175,000 for a total payment of \$588,783.

<b>MHC-supplied O&amp;M Expenses</b>					
<i>MHC has supplied the categories and data.</i>					
<i>According to the organization, the numbers are culled from the audited financial statements, with the exception of FYE 2007, which is from the P&amp;L statements.</i>					
<i>Categories have been alphabetized.</i>					
	<b>FYE 2003</b>	<b>FYE 2004</b>	<b>FYE 2005</b>	<b>FYE 2006</b>	<b>FYE 2007</b>
Garbage	\$4,967	\$5,873	\$2,588	\$2,757	\$2,948
Maintenance Repairs/Contracts	\$81,686	\$69,292	\$35,610	\$60,207	\$48,475
Maintenance Supplies	\$8,067	\$12,919	\$12,215	\$10,089	\$11,395
PG&E	\$133,346	\$118,510	\$106,532	\$151,233	\$129,054
Rental Expense**	\$56,027	\$46,146	\$53,398	\$51,601	\$79,983
Security	\$71,996	\$57,464	\$48,441	\$28,313	\$27,066
Service Agreements	\$21,210	\$15,029	\$16,480	\$6,031	\$33,351
Telephone	\$18,974	\$15,663	\$22,947	\$16,781	\$15,379
Water Utility	\$11,063	\$13,953	\$13,868	\$17,168	\$16,664
<b>Total</b>	<b>\$407,336</b>	<b>\$354,848</b>	<b>\$312,079</b>	<b>\$344,181</b>	<b>\$364,313</b>
** MHC footnote: "Donated rental value of \$630.1k and \$581.7k in 2003 and 2004 respectively were taken out. Also, Equipment Rental is consolidated under this Rental Expense category."					

### **Chart 2: Audited Numbers- Management & General (excluding Program Services & Fundraising)**

We tried to replicate MHC's numbers using the Audited Financial Statements, however, the totals for each category and those totaled by year were much less than those supplied by MHC in its chart.

As the Statement of Functional Expenses in the audited financial statements breaks out the expenses by Management and General; Program Services; and Fundraising, we only used the Management and General expense line items as Program Service expenses will fluctuate based on the number of programs MHC runs as well as their scope and size. Fundraising Expenses, while much lower than the other two categories, typically included salaries and benefits, contract fees artists, and other expenses that do not related directly to the facility. We did, however, use the totals of all three categories for Utilities and Telephone.

#### **Audited Numbers - Management & General (excluding Program Services & Fundraising)**

List of categories was supplied by MHC.

*In the Statement of Functional Expenses, "Utilities" is understood to cover PG&E, Garbage, and Water Utilities, and it is assumed that "Contractors" must include Maintenance Repairs/ Contracts and Service Agreements. We have also added "Other non-labor" assuming that it might contain items that MHC has listed as "Service Agreements", which might have not been included in "Contractors" or included in "Rental Expenses". We note, however, that the category "Supplies" might include supplies for programs as well as items related to facilities maintenance.*

*Categories have been alphabetized.*

	FYE 2003	FYE 2004	FYE 2005	FYE 2006	FYE 2007
Contractors	\$2,148	\$33,196	\$37,197	\$6,327	
Maintenance & Repairs	\$3,087	\$2,606	\$49,842	\$67,861	
Other non-labor	\$5,508	\$10,008	\$10,577	\$3,450	
Rental Expenses*	-	-	-	-	
Security	\$2,160	\$1,724	\$35,373	\$13,281	
Supplies	\$947	\$1,235	\$18,543	\$9,252	
Telephone	\$569	\$470	\$16,915	\$9,640	
Utilities	\$4,481	\$4,150	\$122,372	\$170,098	
<b>Total</b>	<b>\$18,900</b>	<b>\$53,389</b>	<b>\$290,819</b>	<b>\$279,909</b>	<b>Not Yet Available</b>

*\* The fair market value of the Plaza is included in the Rental Expense category for FYE 2002 to 2006 so this number has been removed from this chart. In FYE 2001, the Rental Expense is assumed to be equipment rental and therefore has been included in the data for that year.*

### **Chart 3: Audited Numbers – Management & General (excluding Program Services & Fundraising allocations)**

Again using Audited Financial Statements (Statement of Functional Expenses) we tried to reconcile these figures with those provided by MHC. To do this, we added additional categories in order to try and equal the totals for each year; however, we were unsuccessful in matching MHC's financial totals by year.

### Audited Numbers - Management & General (excluding Program Services & Fundraising)

Categories include potential matches with additional expenses added by Strategic Philanthropy Advisors, LLC that could be considered costs necessary to maintain the facility. As the reader will note, some of the numbers from the audited statements do not match those provided by MHC, which are suppose to be from the same documents.

Categories have been alphabetized.

	FYE 2003	FYE 2004	FYE 2005	FYE 2006	FYE 2007
Contractors	\$2,148	\$33,196	\$37,197	\$6,237	
Insurance	\$822	\$1,160	\$25,467	\$37,050	
Maintenance & Repairs	\$3,087	\$2,606	\$49,842	\$67,861	
Other non-labor	\$5,508	\$10,008	\$10,577	\$3,450	
Rental Expenses	-	-	-	-	
Security	\$2,160	\$1,724	\$35,373	\$13,281	
Supplies	\$947	\$1,235	\$18,543	\$9,252	
Telephone	\$569	\$470	\$16,915	\$9,640	
Utilities	\$4,481	\$4,150	\$122,372	\$170,098	
<b>Total</b>	<b>19,722</b>	<b>54,549</b>	<b>\$316,286</b>	<b>\$316,869</b>	<b>Not Yet Available</b>

### Chart 4: Profit and Loss Statement Allocations by MHC's Categories

In this chart we tried to match MHC's categories and totals with those from the Profit and Loss Statements. This time they did match closely. Although the interim CFO was informed that in the years before he started to work with MHC the General Ledger was always updated each year to reflect the auditor's findings, we were not sure if the P&L categories could be reconciled with similar categories in the audited statements. Our own financial analysis has shown that it is often hard to match exactly all of the profit and loss categories to the categories in the Audited Financial Statements. In regards to these particular categories, however, we were able to almost equal MHC's data for FYE 2003 to FYE 2007.

### P&L Statement Allocations by MHC's Categories

Rental Expense excludes the cost of renting the facility from the City.

Categories have been alphabetized.

	FYE 2003	FYE 2004	FYE 2005	FYE 2006	FYE 2007
Equipment Rental	\$35,613	\$26,034	\$43,762	\$47,916	\$37,078
Garbage	\$4,967	\$5,873	\$2,586	\$2,757	\$2,276
Maintenance - Contract	\$69,816	\$54,182	\$33,299	\$42,316	\$37,763
Maintenance - Repairs	\$12,745	\$15,110	\$2,312	\$17,892	\$10,192
Maintenance - Supplies/Parts	\$8,067	\$12,919	\$12,215	\$10,089	\$10,229
PG&E	\$133,346	\$118,510	\$106,532	\$151,233	\$129,054
Rental Expense	\$20,499	\$20,112	\$9,637	\$3,685	\$38,732
Security	\$71,996	\$57,464	\$48,441	\$28,313	\$23,241
Service Agreements	\$21,210	\$15,029	\$16,480	\$6,031	\$33,351
Telephone	\$18,974	\$15,663	\$22,947	\$16,781	\$15,279
Water Utility	\$11,335	\$13,953	\$13,868	\$17,168	\$16,664
<b>Total</b>	<b>\$408,567</b>	<b>\$354,848</b>	<b>\$312,077</b>	<b>\$344,181</b>	<b>\$353,858</b>

### **Chart 5: Excluding expenses from MHC O&M Categories that are not directly related to the operations and maintenance of the Plaza**

We examined all of MHC's general ledger categories and removed expenses that were related to programs or facilities rentals. (Our methodology is discussed in detail in the section on Chart 7.)

MHC-supplied O&M Expenses						Amounts After Items Not Related to Operations and Maintenance Were Excluded				
<i>MHC has supplied the categories and data.</i>										
Expense	FYE 2003	FYE 2004	FYE 2005	FYE 2006	FYE 2007	FYE 2003	FYE 2004	FYE 2005	FYE 2006	FYE 2007
Garbage	\$4,967	\$5,873	\$2,588	\$2,757	\$2,948	\$4,967	\$5,873	\$2,586	\$2,757	\$2,276
Maintenance Repairs/Contracts	\$81,686	\$69,292	\$35,610	\$60,207	\$48,475	\$60,857	\$57,595	\$33,051	\$52,051	\$34,825
Maintenance Supplies	\$8,067	\$12,919	\$12,215	\$10,089	\$11,395	\$7,974	\$12,451	\$11,405	\$9,978	\$8,457
PG&E	\$133,346	\$118,510	\$106,532	\$151,233	\$129,054	\$133,346	\$118,510	\$106,532	\$151,233	\$129,054
Rental Expense**	\$56,027	\$46,146	\$53,398	\$51,601	\$79,983	\$679	\$2,660	\$2,480	\$1,618	-\$676
Security	\$71,996	\$57,464	\$48,441	\$28,313	\$27,066	\$48,007	\$31,482	\$26,369	\$4,603	-\$1,610
Service Agreements	\$21,210	\$15,029	\$16,480	\$6,031	\$33,351	\$13,083	\$8,676	\$6,404	\$6,031	\$18,026
Telephone	\$18,974	\$15,663	\$22,947	\$16,781	\$15,379	\$18,974	\$15,663	\$22,947	\$16,781	\$15,279
Water Utility	\$11,063	\$13,953	\$13,868	\$17,168	\$16,664	\$11,335	\$13,953	\$13,868	\$17,168	\$16,664
<b>Total</b>	<b>\$407,336</b>	<b>\$354,848</b>	<b>\$312,079</b>	<b>\$344,181</b>	<b>\$364,313</b>	<b>\$299,221</b>	<b>\$266,863</b>	<b>\$225,643</b>	<b>\$262,219</b>	<b>\$222,293</b>
<b>** MHC footnote: "Donated rental value of \$630.1k and \$581.7k in 2003 and 2004 respectively were taken out. Also, Equipment Rental is consolidated under this Rental Expense category."</b>										

In summation, we reduced the amount of expenses related to the operations and maintenance of the facility.

Comparison of MHC and Consultant's Data per MHC Categories					
	FYE 2003	FYE 2004	FYE 2005	FYE 2006	FYE 2007
Consultants' Data Per MHC's Categories - Totals	\$299,982	\$252,970	\$223,331	\$244,520	\$214,375
MHC Categories & Data Totals	\$407,336	\$354,848	\$312,079	\$344,181	\$364,313
Difference (or amount of <i>ineligible</i> O&M expenses per a review of all general ledger line items in MHC's categories.)	-\$107,354	-\$101,878	-\$88,748	-\$99,661	-\$149,938

### **Chart 6: Additional GL Ledger Categories that Contain Expenses that the Consultants Believe Should Be Included as Operations and Maintenance Expenses**

Now that we understood the source of MHC's financial data (P&L statement categories and combined categories in certain circumstances) we examined all of the general ledger line items to determine if there were other expenses that should be added to this data. Were there other costs that MHC had possibly overlooked when it calculated how much it was paying each year to operate and maintain the facilities? Was there any structural work or one-time charges incurred by the Maintenance Department that might have been omitted on MHC's list because the expenses were not incurred each year?

After reviewing all of the Profit and Loss categories for five years, we added several categories: Insurance-General Liability (because the O&M Agreement stipulates that the organization must

obtain such a policy and because it also requires minimum coverage limits); Gallery Retrofit, (which was work undertaken last year); Permits and Licenses, (which included elevator and sewer permits and other building safety system licenses); and Supplies, as some of the janitorial and office supplies were allocated to this line item.

Additional O&M Categories added by Consultant					
	FYE 2003	FYE 2004	FYE 2005	FYE 2006	FYE 2007
Gallery Retrofit	-	-	-	-	\$2,650
Insurance - General Liability	\$25,824	\$36,918	\$24,149	\$35,219	\$38,040
Permits & Licenses	\$2,492	\$3,460	\$2,841	\$2,061	\$804
Supplies	\$874	\$4,509	\$1,714	\$923	\$8,841
<b>Total</b>	<b>\$29,190</b>	<b>\$44,887</b>	<b>\$28,704</b>	<b>\$38,203</b>	<b>\$50,335</b>

We then reconciled MHC's category totals with our additional category totals.

Reconciliation of MHC's and Consultant's Data on Cost of Operating the Plaza (Staff Expenses Not included)					
	FYE 2003	FYE 2004	FYE 2005	FYE 2006	FYE 2007
Consultant-calculated O&M Expenses	\$329,171	\$297,857	\$252,035	\$282,722	\$264,710
MHC's Data	\$407,336	\$354,848	\$312,079	\$344,181	\$364,313
Difference (or amount of Ineligible O&M expenses as the expenses are related to programs or facilities rentals)	-\$78,165	-\$56,991	-\$60,044	-\$61,459	-\$99,603

**Chart 7: Consultant-calculated O&M Costs for the Years FYE 2003 to 2007 based on the Profit and Loss Statement Categories' General Ledger Line Items per MHC's Categories with Additional Categories Added by Consultant.**

We were cognizant that in the early years of MHC's operations of the Plaza, there were not as many accounting policies as are currently in place by the organization with regards to the allocation of expenses. We asked to see an accounting of the various expense categories on MHC's list by general ledger code plus the entries for the additional categories outlined above.

Our O&M expense data was obtained by reviewing 3,266 general ledger entries for the years FYE 2003 through 2007 as well as adding the totals for utilities (PG&E – gas and electric, water, telephone, and garbage.)

All of the general ledger items had been provided to us from MHC with the following information: department code, document number, identification code, transaction description, effective date, and debit/credit amount. We were also provided with the department codes so that we could see how various expense items were allocated within the organization. We also were given the profit and loss statement by department.

There were many instances where there was no vendor listed, description of item or other identifier. We gave MHC every benefit of the doubt in these instances that the expense was related to operations and maintenance of the Plaza and included the expense in our data.

We excluded expenses based on the following criteria:

- Facility Rental Department expenses incurred when the Plaza was rented by the public. Examples included linens; rental tables and chairs; janitorial cleaning expenses before or after an event; slide projectors, tripods, and other equipment needed by the client; and security for specific events. Many of the transaction descriptions noted if an expense was for a wedding or quinceañeras. We made an exception; however, when the departmental charge was identified as “Theater Supplies” because we were not certain if the expense was related to an event, MHC Presents, or the 500 theater facility itself. In all cases, we gave MHC the benefit of the doubt and retained these “theater” expenses as O&M-related costs.
- Gallery-related expenses were excluded if they were exhibition-related as these would be gallery program expenses and not O&M. At times it was difficult to determine if painting the gallery was maintenance and/or cleaning related or was incurred because an exhibit had left the Plaza or was being presented to the public. Again, we always gave MHC the benefit of the doubt. All gallery retrofit charges were retained as this, in our opinion, is a true O&M cost.
- Arts Program & Education Programs are just that: programs of MHC and are not related to the O&M of the Plaza. As a result we excluded guitar straps, instrument repairs, paint and contest supplies, and other related expenses.
- MHC Presents (includes the Mariachi Festival and other programs) and events held at the Plaza as these expenses are program related and are not true O&M expenses. This means that we excluded permits for the Mariachi Festival, security costs related to the event, equipment rentals, tables and chairs for concerts, and related items.
- Fundraising expenses for fundraising software was omitted within the Equipment Rental or Service Agreement categories because this is an indirect expense of the organization and not specifically related to operations and maintenance.

We included the following expenses:

- Administrative expenses related to MHC’s office if they are part of one of the categories MHC included in its chart on O&M occupancy expenses. If it appeared, however, that an expense was not appropriately allocated, even though it was in MHC presents or Art Ed. (as examples) we moved these expenses to O&M. Examples include costs for photo copy and postage machine rentals. Again, whenever possible, we gave the benefit of the doubt to MHC and included the expense in the total for the fiscal year.

**Chart 8: MHC General Ledger Titles with Additional Categories Added by Strategic Philanthropy Advisors, LLC with Expenses Grouped by Type and Not by Category**

General Ledger Titles - Strategic Philanthropy Advisors, LLC's Categories						
Expense	FYE 2003	FYE 2004	FYE 2005	FYE 2006	FYE 2007	
<i>Equipment Rental:</i>						
Postage Meter	\$679	\$1,422	\$793	\$1,291	\$209	
Misc. Rentals	-	\$254	\$1,353	\$327	-\$327	
<i>Gallery Retrofit</i>	-	-	-	-	\$2,650	
<i>Garbage</i>	\$4,967	\$5,873	\$2,586	\$2,757	\$2,276	
<i>Insurance - General Liability</i>	\$25,824	\$36,918	\$24,149	\$35,219	\$38,040	
<i>Maintenance - Contract:</i>						
Cleaning/Janitorial	\$20,851	\$14,127	\$7,770	\$7,415	-\$12	
Elevator	\$4,703	\$8,706	\$7,385	\$7,773	\$5,982	
Building Safety Systems	\$2,619	\$2,400	\$3,900	\$3,900	\$2,700	
HVAC	\$7,920	\$8,356	\$5,993	\$11,276	\$10,821	
Information Technology	-	\$1,037	-	-	\$2,423	
Landscaping	\$9,500	\$6,565	\$3,775	\$835	-\$470	
Misc. Maintenance	\$868	\$334	\$1,378	\$2,185	\$2,634	
Painting	-	-	-	-	\$1,630	
Pest Control	\$2,502	\$2,431	\$540	\$720	\$1,080	
Phone/Phone System/Maintenance	-\$97	-	-	-	-	
Refrigeration	-	-	-	\$248	-	
Sweeping Services	\$760	-	-	-	-	
<i>Maintenance - Repairs:</i>						
Building Safety Systems	\$3,703	\$1,807	\$480	-	\$1,461	
Cleaning/Janitorial	-	\$525	-	-	-	
Copy Machines	-	\$209	-	-	\$940	
Elevator	\$872	-	-	\$3,176	-	
Fountain	\$100	\$570	-	-	-	
HVAC	\$5,889	\$692	-	\$205	\$180	
Landscaping	-	-	-	\$6,500	\$1,735	
Lighting	-	\$2,374	\$277	-	\$539	
Locksmith Services	\$111	\$425	-	-	-	
Misc. Maintenance	\$834	\$6,016	\$1,029	\$4,091	\$1,930	
Painting	-	-	-	\$2,062	\$949	
Refrigeration	\$481	-	\$525	\$1,162	-	
Theatre	-	\$1,020	-	\$503	\$303	
<i>Maintenance - Supplies/Parts:</i>						
Cleaning/Janitorial	\$4,260	\$4,977	\$3,051	\$2,937	\$2,922	
Copy Machines	-	\$52	-	-	-	
Flags	\$456	-	-	-	-	
Landscaping	-	\$791	-	-	-	
Lighting	\$1,225	-	\$2,704	\$3,718	\$830	
Maintenance Supplies	\$1,342	\$5,634	\$5,349	\$1,879	\$3,414	
Misc. Maintenance	\$692	\$997	-	\$211	\$221	
Theatre	-	-	\$301	\$1,233	\$1,070	
<i>Continued</i>						

General Ledger Titles - Strategic Philanthropy Advisors, LLC's Categories <i>Continued</i>					
Expense	FYE 2003	FYE 2004	FYE 2005	FYE 2006	FYE 2007
Permits & Licenses	\$2,492	\$3,460	\$2,841	\$2,061	\$804
PG&E	\$133,346	\$118,510	\$106,532	\$151,233	\$129,054
Rental Expense	-	\$984	\$334	-	-\$558
Security:					
Building Safety Systems	\$1,868	\$1,810	\$1,679	\$3,678	\$2,055
Locksmith Services	-	-	-	\$452	-
Maintenance Supplies Misc.	-	-	-	\$260	-
Permits & Licenses	-	-	-	\$213	-
Security Patrols/Other Non Identified	\$46,139	\$29,672	\$24,690	-	-\$3,665
Service Agreements:					
Cleaning/Janitorial	-	\$130	\$300	\$350	\$1,370
Copy Machines	\$2,225	\$966	\$133	-	\$398
Elevator	-	-	-	-	\$2,104
Building Safety Systems	-	-	\$316	\$234	\$1,590
HVAC	-	-	-	-	\$2,162
Information Technology	\$762	-	\$1,250	\$935	\$2,173
ISP Service	\$6,939	\$4,101	\$2,250	\$1,425	\$767
Landscaping	-	\$548	-	-	\$1,960
Maintenance	-	-	\$601	-	\$2,000
Misc. Service Agreements	\$722	\$968	-	-	\$237
Pest Control	-	-	-	-	\$90
Phone/Phone System/Maintenance	\$2,434	\$1,963	\$1,554	\$3,088	\$1,504
Plumbing	-	-	-	-	\$1,235
Refrigeration	-	-	-	-	\$437
Supplies:					
Cleaning/Janitorial	-	-	-	-	\$2,088
Flags	-	-	\$701	-	\$347
Landscaping	-	\$137	-	-	\$1,449
Lighting	\$128	-	-	-	\$866
Misc. Supplies	\$102	\$1,776	\$347	\$242	-\$507
Office Supplies	-	\$1,064	-	\$54	\$2,055
Theatre	\$643	\$1,532	\$666	\$626	\$2,543
Telephone	\$18,974	\$15,663	\$22,947	\$16,781	\$15,279
Water Utility	\$11,335	\$13,953	\$13,868	\$17,168	\$16,664
<b>Total</b>	<b>\$329,171</b>	<b>\$311,750</b>	<b>\$254,346</b>	<b>\$300,421</b>	<b>\$272,628</b>

As the chart shows, there were many similar expense types grouped within several categories. In fact not all of the allocations were consistent for the same vendor providing the same service.

The purpose of creating the next chart, therefore, was to group the expenses by type to determine if there were any particular expense categories that were unusually high in a particular year outside of the typically large expenses incurred for utilities and general liability insurance premiums.

In fact, the cost for Security Patrols/Other Non Identified is quite high for FYE 2003 to 2005. This might be because the organization hired security guards for the Plaza or because it had a contract with a security company that provided details for events.

General Ledger Titles - Strategic Philanthropy Advisors, LLC's Categories						
<i>All expenses were combined by type and not by category.</i>						
Expense	FYE 2003	FYE 2004	FYE 2005	FYE 2006	FYE 2007	5-year Average
Building Safety Systems	\$8,191	\$6,017	\$6,376	\$7,812	\$7,806	\$7,240
Cleaning/Janitorial	\$25,111	\$19,759	\$11,121	\$10,702	\$6,368	\$14,612
Elevator	\$5,575	\$8,706	\$7,385	\$10,949	\$8,087	\$8,140
Gallery Retrofit	-	-	-	-	\$2,650	\$530
Garbage	\$4,967	\$5,873	\$2,586	\$2,757	\$2,276	\$3,692
HVAC	\$13,809	\$9,048	\$5,993	\$11,481	\$13,163	\$10,699
Information Technology	\$762	\$1,037	\$1,250	\$935	\$4,595	\$1,716
Insurance - General Liability	\$25,824	\$36,918	\$24,149	\$35,219	\$38,040	\$32,030
ISP Service	\$6,939	\$4,101	\$2,250	\$1,425	\$767	\$3,096
Landscaping	\$10,360	\$8,611	\$3,775	\$7,335	\$4,674	\$6,951
Lighting	\$1,353	\$2,374	\$2,981	\$3,718	\$2,235	\$2,532
Locksmith Services	\$111	\$425	-	\$452	-	\$198
Maintenance Related	\$3,736	\$12,981	\$8,357	\$10,688	\$14,013	\$9,955
Misc. Service Agreements	\$722	\$968	-	-	\$237	\$385
Misc. Supplies	\$558	\$1,776	\$1,048	\$242	-\$160	\$693
Office Supplies	\$2,904	\$3,714	\$926	\$1,345	\$3,602	\$2,498
Permits & Licenses	\$2,492	\$3,460	\$2,841	\$2,274	\$804	\$2,374
Pest Control	\$2,502	\$2,431	\$540	\$720	\$1,170	\$1,473
PG&E	\$133,346	\$118,510	\$106,532	\$151,233	\$129,054	\$127,735
Phone/Phone System/Maintenance	\$2,337	\$1,963	\$1,554	\$3,088	\$1,504	\$2,089
Refrigeration	\$481	-	\$525	\$1,410	\$437	\$571
Rental Expense	-	\$1,238	\$1,686	\$327	-\$885	\$473
Security Patrols/Other Non Identified	\$46,139	\$29,672	\$24,690	-	-\$3,665	\$19,367
Telephone	\$18,974	\$15,663	\$22,947	\$16,781	\$15,279	\$17,929
Theatre	\$643	\$2,552	\$966	\$2,363	\$3,916	\$2,088
Water Utility	\$11,335	\$13,953	\$13,868	\$17,168	\$16,664	\$14,598
<b>Total</b>	<b>\$329,171</b>	<b>\$311,750</b>	<b>\$254,346</b>	<b>\$300,421</b>	<b>\$272,628</b>	<b>\$293,663</b>
<i>Misc. Rentals expenses was added to Rental Expenses</i> <i>Foundation and Sweeping expenses were added to Landscaping</i> <i>Flags expenses was added to Misc. Supplies</i> <i>Plumbing was added to Maintenance-related</i> <i>Postage meter and copier expenses was added to Office Supplies</i> <i>Painting was added to Maintenance Related</i>						

We added a column "5-Year Average" as we thought that it would be useful for the City and MHC to see the dollar average of each category over the review period. We expect that it will also be a useful tool for budgeting and for the MHC to incorporate into its new Business Plan.

Utilities expenses are always variable as usage as well as rates determines their yearly cost.

**How much has it Cost to Run the Plaza for the Last Five Years with Staff Expense?**

The answer to the question of how much has it cost to run the facility from FYE 2003 to 2007 with staff depends on what positions are included in the analysis.

Before we delve deeper into this topic, and specifically as it relates to MHC's and the community's definition, we need to review the organization's staff positions by year as well as the salary and benefits for each.

We have recreated condensed charts for each year from data provided to us by MHC. We tried unsuccessfully to reconcile this salary and benefit data to the Profit and Loss Statements, to the Audited Financial Statements and to the organization's top salaries listed in their Form 990ies. For the purposes of this report we are taking the information provided by the organization at face value.

<b>FYE 2003 Staff Salary &amp; Benefits Expense</b>				
<b>Position</b>	<b># or Months on Staff</b>	<b>Salary</b>	<b>Benefits</b>	<b>Total Salary and Benefits</b>
Administrative Assistant	12	\$35,806	\$7,161	\$42,967
Administrative Assistant	11.25	\$44,172	\$8,834	\$53,006
CEO	12	\$122,068	\$19,531	\$141,599
Custodian	12	\$14,867	\$5,203	\$20,070
Development Department	3	\$10,867	\$2,173	\$13,041
Director of Arts Programs	12	\$60,701	\$12,140	\$72,841
Director of Education Programs	12	\$34,063	\$6,813	\$40,876
Director of Heritage Programs	12	\$46,523	\$9,305	\$55,827
Director of Operations	9	\$54,090	\$10,818	\$64,908
Education Department	12	\$34,045	\$6,809	\$40,854
Facilities Evening Supervisor	5	\$10,250	\$3,588	\$13,838
Facilities Rental Assistant	12	\$37,845	\$7,569	\$45,414
Facilities Rentals Assistant	2.75	\$11,949	\$2,390	\$14,339
Facilities Rentals Department	1.5	\$5,192	\$1,038	\$6,231
Marketing Department	3	\$17,916	\$3,583	\$21,499
Theater Technical Director	12	\$39,936	\$13,978	\$53,914
<b>Total</b>		<b>\$580,289</b>	<b>\$120,933</b>	<b>\$701,222</b>
<i>Data supplied by MHC</i>				

FYE 2004 Staff Salary & Benefits Expense				
Position	# of Months on Staff	Salary	Benefits	Total Salary and Benefits
Administrative Assistant	1.25	\$6,665	\$1,333	\$7,998
Administrative Assistant	8.5	\$9,275	\$1,855	\$11,130
Custodian	12	\$15,210	\$5,324	\$20,534
Development Department	6.75	\$18,846	\$3,769	\$22,615
Director of Arts Programs	6	\$32,500	\$6,500	\$39,000
Director of Education Programs	12	\$35,530	\$7,106	\$42,636
Director of Finance and Operations	8	\$47,115	\$7,538	\$54,654
Director of Heritage Programs	12	\$51,700	\$10,340	\$62,040
Education Department	9	\$24,490	\$4,898	\$29,388
Education Department	4.5	\$12,693	\$2,539	\$15,231
Executive Director	6	\$65,769	\$13,154	\$78,923
Facilities Evening Supervisor	12	\$30,620	\$10,717	\$41,337
Facilities Rental Assistant	12	\$39,474	\$7,895	\$47,369
Facilities Rentals Assistant	9	\$28,308	\$5,662	\$33,969
Facilities Rentals Department	12	\$50,000	\$10,000	\$60,000
Operations Manager	12	\$49,039	\$17,163	\$66,202
Theater Technical Director	12	\$41,594	\$14,558	\$56,151
<b>Total</b>		<b>\$558,828</b>	<b>\$130,350</b>	<b>\$689,178</b>
<i>Data supplied by MHC</i>				

FYE 2005 Staff Salary & Benefits Expense				
Position	# of Months on Staff	Salary	Benefits	Total Salary and Benefits
Administrative Assistant	12	\$24,326	\$4,865	\$29,192
CEO	9	\$76,731	\$12,277	\$89,008
Custodian	6	\$6,416	\$2,245	\$8,661
Development Department	8	\$26,639	\$5,328	\$31,966
Director of Education Programs	12	\$35,544	\$7,109	\$42,653
Director of Finance and Operations	12	\$73,096	\$11,695	\$84,791
Director of Heritage Programs	5	\$21,719	\$4,344	\$26,063
Education Department	4.5	\$14,269	\$2,854	\$17,123
Executive Director	6	\$41,306	\$8,261	\$49,567
Facilities Evening Supervisor	12	\$33,284	\$11,649	\$44,933
Facilities Rental Assistant	5.5	\$16,978	\$3,396	\$20,374
Facilities Rentals Assistant	1.5	\$7,647	\$1,529	\$9,176
Facilities Rentals Department	1.5	\$5,769	\$1,154	\$6,923
Operations Manager	12	\$52,212	\$18,274	\$70,486
Theater Technical Director	12	\$43,660	\$15,281	\$58,941
<b>Total</b>		<b>\$479,595</b>	<b>\$110,262</b>	<b>\$589,857</b>
<i>Data supplied by MHC</i>				

FYE 2006 Staff Salary & Benefits Expense		# of		
Position	Months on	Staff	Salary	Total Salary and Benefits
Administrative Assistant	3		\$5,099	\$1,020
CEO	12		\$105,000	\$10,500
Custodian	11		\$17,370	\$5,558
Director of Education Programs	4		\$10,278	\$0
Director of Finance and Operations	9		\$61,916	\$4,644
Director of Heritage Programs	11.5		\$44,231	\$8,404
Director of Mariachi Youth Programs	7.5		\$23,176	\$12,052
Director of Special Events (Facilities Rentals Manager)	7.5		\$19,754	\$6,716
Facilities Evening Supervisor	12		\$29,690	\$9,501
Operations Manager	12		\$56,673	\$18,135
Theater Technical Director	12		\$43,724	\$14,866
<i>Data supplied by MHC</i>		<b>Total</b>	<b>\$416,911</b>	<b>\$91,396</b>
				<b>\$508,307</b>

FYE 2007 Staff Salary & Benefits Expense		# of		
Staff Position	Months on	Staff	Salary	Total Salary and Benefits
CEO *	12		\$138,994	\$13,899
Custodian	12		\$24,133	\$8,447
Director of Heritage Programs	12		\$50,808	\$12,702
Director of Mariachi Youth Programs	12		\$43,965	\$14,948
Director of Special Events (Facilities Rentals Manager)	12		\$41,687	\$14,174
Facilities Evening Supervisor	12		\$24,155	\$8,454
Los Lupenos Artistic Director	12		\$10,000	\$0
Mariachi Education Program Coordinator	8		\$30,024	\$10,208
Operations Manager	12		\$60,993	\$21,347
Theater Technical Director	12		\$44,380	\$15,089
<b>Total</b>			<b>\$469,138</b>	<b>\$119,269</b>
<b>Consultants</b>				
CFO and Accounting Manager **	10		\$62,850	\$0
Receptionist / Assistant to the CEO	12		\$43,492	\$0
<b>Total</b>			<b>\$106,342</b>	<b>\$0</b>
<b>Total Staff and Consulting Salaries &amp; Benefits Expense</b>		<b>Grand Total</b>	<b>\$575,481</b>	<b>\$119,269</b>
				<b>\$694,749</b>

\* 1. Salary includes a \$10,000 bonus. (The Trustees approved a bonus of \$32,000 "paid upon the completion of certain agreed-upon revenue and mission-related objectives" according to MHC. The CEO stated the Executive Committee approved a plan to pay this bonus in increments. The CEO will "approach the board about payment of the rest of approved bonus when, in her estimation and that of the CFO, the organization's cash flow would permit payment of the bonus.")

\* 2. MHC's comment on the CEO's salary; "For the first half of Fiscal Year 2007 (July 2006 – December 2006), she was paid at \$105,000, for the second half (January 2007 – June 2007), at \$150,000. Therefore, the amount she was actually paid in that fiscal year is essentially an average of the two salaries: \$128,994. Added to this, we also have the \$10,000 bonus, which would bring the total to \$138,994."

\*\* The firm billing for the consultant's fees does not separate the cost of the two positions.

*Data supplied by MHC*

<b>FYE 2008 Budgeted Staff Salary &amp; Benefits Expense (Includes Consultants)</b>				
<b>Position</b>	<b># of Months on Staff</b>	<b>Salary</b>	<b>Benefits</b>	<b>Total Salary and Benefits</b>
Accounting Clerk *	12	\$31,200	\$3,744	\$34,944
Custodian	12	\$24,960	\$9,984	\$34,944
Customer Relations Associate and Assistant to the CEO * <sup>2</sup>	12	\$39,520	\$7,904	\$47,424
Director of Mariachi Youth Programs	12	\$46,800	\$5,616	\$52,416
Director of Operations * <sup>3</sup>	12	\$70,000	\$11,200	\$81,200
Facilities Evening Supervisor	12	\$20,800	\$4,784	\$25,584
Facilities Maintenance Manger	12	\$72,000	\$25,920	\$97,920
Facilities Rentals Associate	12	\$33,280	\$4,659	\$37,939
Facilities Rentals Manager	12	\$55,328	\$11,066	\$66,394
Fund Development Director	12	\$51,500	\$10,815	\$62,315
Los Lupenos Artistic Director	12	\$13,000	\$4,420	\$17,420
Mariachi Education Program Coordinator	12	\$49,920	\$10,483	\$60,403
President, CEO, and Executive Producer	12	\$150,000	\$15,000	\$165,000
Theater Technical Director	12	\$45,032	\$13,960	\$58,992
<b>Total</b>		<b>\$703,340</b>	<b>\$139,555</b>	<b>\$842,895</b>
<b>Consultants</b>				
CFO and Accounting Manger	12	\$77,400	\$0	\$77,400
<b>Total</b>		<b>\$77,400</b>	<b>\$0</b>	<b>\$77,400</b>
<b>Total Staff and Consulting Salaries &amp; Benefits Expense</b>	<b>Grand Total</b>	<b>\$780,740</b>	<b>\$139,555</b>	<b>\$920,295</b>
<b>Positions include the following title changes:</b>				
CEO <i>to</i> President, CEO, and Executive Producer				
Receptionist / Assistant to the CEO <i>to</i> Customer Relations Associate and Assistant to the CEO				
Director of Special Events <i>to</i> Facilities Rentals Manager				
Facilities Rentals Assistant <i>to</i> Facilities Rentals Associate				
Operations Manager <i>to</i> Facilities Maintenance Manager				
Accounting Assistant <i>to</i> Accounting Clerk				
<i>Notes</i>				
* This position was budgeted for full time, however, the individual is currently only working half time. This salary & benefit data assumes that the individual is working full time.				
* <sup>2</sup> This individual was a temporary worker for the first two months of the year. Salary & Benefit amounts reflect the hiring on July 1.				
* <sup>3</sup> The budget assumes that this individual started on July 1 instead of August 1. Data has not been changed.				
<i>Data supplied by MHC</i>				

A note about salaries and benefits:

1. The CEO stated that historically MHC “provided ad-hoc bonuses as rewards for a job well done in specific circumstances” but we were not provided with the names of staff or positions who received these bonuses, bonus amounts, or the years in which they were awarded. We can only assume that the information is contained in the salaries and benefit information that MHC provided to us.

2. MHC has informed us that they are “in conversation with selected staff about creating incentive compensation for them”; however, those discussions have not been finalized. We have not been privy to any information about the bonus plan; how it would be established, budgeted and paid for, or the criteria used to establish the award(s). The only formal bonus plan approved by the Board of Trustees is for the current CEO, which is outlined in the FYE 2007 Staff Salaries and Benefits chart footnotes.

### **Detailed Data for Scenarios Outlined by Strategic Philanthropy Advisors, LLC and MHC**

We have prepared several charts with in-depth salary and benefit costs for each staff position for the last five years that totals the personnel costs listed in our summary charts in the Scenarios section.

The following chart outlines the historical salary and benefit costs for four positions that we have outlined as “Basic Staff Costs”; minimum staff required to keep the doors of the Plaza open, clean, and serviceable by the public, including the 500-seat theater, which requires specific expertise needed to operate this venue.

<b>"Basic Staff Costs"</b>						
	<b>FYE 2003</b>	<b>FYE 2004</b>	<b>FYE 2005</b>	<b>FYE 2006</b>	<b>FYE 2007</b>	<b>Totals 5-Years</b>
Custodian *	\$20,070	\$20,534	\$8,661	\$22,928	\$32,580	\$104,773
Facilities Evening Supervisor	\$13,838	\$41,337	\$44,933	\$39,191	\$32,609	\$171,908
Theater Technical Director	\$53,914	\$56,151	\$58,941	\$58,590	\$59,469	\$287,065
Director of Operations/Operations Manager *2	\$64,908	\$66,202	\$70,486	\$74,808	\$82,340	\$358,744
<b>Total</b>	<b>\$152,730</b>	<b>\$184,224</b>	<b>\$183,021</b>	<b>\$195,517</b>	<b>\$206,998</b>	<b>\$922,490</b>
<p>* One person held the position from FYE 2003 to 2005 and another individual holds the position currently. The data has been combined for the 5-year totals.</p> <p>*2 The different titles for the same position (responsibility) have been combined.</p> <p>Data supplied by MHC</p>						

We have also created a chart containing the staff positions that comprise “Basic Staff Costs” with personnel from the Facilities Rentals Department. In our opinion, these are the staff positions under the current operating model in place at the Plaza that should be allocated to a “Plaza Program budget.

<b>"Basic Staff Costs" plus Facilities Rental Department</b>						
	<b>FYE 2003</b>	<b>FYE 2004</b>	<b>FYE 2005</b>	<b>FYE 2006</b>	<b>FYE 2007</b>	<b>Totals 5-Years</b>
Custodian	-	-	-	\$22,928	\$32,580	\$55,508
Custodian	\$20,070	\$20,534	\$8,661	-	-	\$49,265
Facilities Evening Supervisor	\$13,838	\$41,337	\$44,933	\$39,191	\$32,609	\$171,908
Theater Technical Director	\$53,914	\$56,151	\$58,941	\$58,590	\$59,469	\$287,065
Facilities Rental Assistant	\$45,414	\$47,369	\$20,374	-	-	\$113,157
Facilities Rentals Assistant	-	\$33,969	\$9,176	-	-	\$43,145
Facilities Rentals Assistant	\$14,339	-	-	-	-	\$14,339
Facilities Rentals Department	\$6,231	\$60,000	\$6,923	-	-	\$73,154
Director of Special Events	-	-	-	\$26,470	\$55,861	\$82,331
Director of Operations	\$64,908	-	-	-	-	\$64,908
Operations Manager	-	\$66,202	\$70,486	\$74,808	\$82,340	\$293,836
<b>Total</b>	<b>\$218,714</b>	<b>\$325,562</b>	<b>\$219,494</b>	<b>\$221,987</b>	<b>\$262,859</b>	<b>\$1,248,616</b>

MCH's Requestst the Following Staff Positions Be Paid by the City and Included in Their Annual O&M Subsidy.

*Information is from Budgeted 2008 Salaries & Benefits*

Staff/Consulting Position	# of Months on Staff	Salary	Benefits	Total Salary and Benefits
Accounting Clerk	12	\$31,200	\$3,744	\$34,944
CFO and Accounting Manger	12	\$77,400	\$0	\$77,400
Custodian	12	\$24,960	\$9,984	\$34,944
Customer Relations Associate and Assistant to the CEO*2	12	\$39,520	\$7,904	\$47,424
Director of Operations	12	\$70,000	\$11,200	\$81,200
Facilities Evening Supervisor	12	\$20,800	\$4,784	\$25,584
Facilities Maintenance Manger	12	\$72,000	\$25,920	\$97,920
Facilities Rentals Associate	12	\$33,280	\$4,659	\$37,939
Facilities Rentals Manager	12	\$55,328	\$11,066	\$66,394
President, CEO, and Executive Producer	12	\$150,000	\$15,000	\$165,000
Theater Technical Director	12	\$45,032	\$13,960	\$58,992
<b>Total</b>		<b>\$619,520</b>	<b>\$108,221</b>	<b>\$727,741</b>

*Data supplied by MHC*



## **Various Scenarios for the City of San Jose to Consider as it Relates to the Operations and Maintenance Agreement**

All of these scenarios occur under the assumption that the City will retain MHC as the operator and programmer of the Plaza. In addition, it assumes that the City will find agreeable the current/future identity and program vision articulated by MHC.

If the City decides that it is in the best interest of the community to change operators or to modify or request changes of MHC's programmatic vision, then these scenarios can only be useful as a starting point for conversations about potential O&M subsidy arrangements. In the latter case, the specificity of the historical figures might not be applicable in determining future financial support.

### **Scenario 1**

Total payments received by MHC under the annual O&M Agreement, including special one-time additional payments for two of the five years, has more than covered the costs to operate and maintain the Plaza for the review period. In fact there has been a surplus of \$790,000 generated that could have been applied to the Reserve Requirement or towards other expenses of MHC's choosing such as programs, equipment, or staff costs.

This scenario also operates under our interpretation of the O&M Agreement that no additional subsidy is required because the City's financial support is only intended to help the operator with some of its operations and maintenance expenses and not 100 percent of its costs. Any shortfall in a given year will need to be raised by the nonprofit organization through outside funders. It also makes an assumption that the City and MHC, as operator of the Plaza, will resume its adherence to the O&M Agreement regarding budget and financial information that the organization is required to present to the City. This means that the organization will be presenting an annual operations and maintenance budget for the facility to the City for approval along with comparisons to the actual costs to operate the facility in the prior year.

	FYE 2003	FYE 2004	FYE 2005	FYE 2006	FYE 2007	Totals 5-Years
City O&M Agreement Subsidy	\$413,783	\$413,783	\$413,783	\$413,783	\$413,783	\$2,068,915
City One-Time Cost of Living Subsidy	\$14,482	-	-	-	-	\$14,482
City One-Time Additional Funding	-	-	-	-	\$175,000	\$175,000
Total City O&M Payments Received	\$428,265	\$413,783	\$413,783	\$413,783	\$588,783	\$2,258,397
Consultant-calculated O&M Expenses	\$329,171	\$311,750	\$254,346	\$300,421	\$272,628	\$1,468,317
Difference without staff costs	\$99,094	\$102,033	\$159,437	\$113,362	\$316,155	\$790,080

### Scenario 2

When the salaries and benefits of the staff who have direct responsibility for keeping the facility clean, maintained, or are responsible for overseeing the theater and its running its technical systems (Custodian, Facilities Evening Supervisor, Theater Technical Director, and Director of Operations/Operations Manager) are added to the Consultant-calculated O&M expenses, the calculation of the total annual costs incurred by MHC increases.

If the City wants to provide an annual O&M subsidy to cover 100 percent of the operations and maintenance costs plus "Basic Staff Costs" then future O&M subsidies will need to be increased based on our analysis of historical data.

Based on budgeted FYE 08 staff salary and benefit costs, the "Basic Staff Costs" scenario would cost \$217,440 plus actual operations and maintenance cost that have averaged \$294,000 for the last five years. This would mean that the FYE 2008 O&M subsidy would need to total approximately \$511,000 for this year, which is an increase of almost \$98,000 over the annual O&M subsidy of \$413,783 outlined in the O&M Agreement.

	FYE 2003	FYE 2004	FYE 2005	FYE 2006	FYE 2007	Totals 5-Years
City O&M Agreement Subsidy	\$413,783	\$413,783	\$413,783	\$413,783	\$413,783	\$2,068,915
City One-Time Cost of Living Subsidy	\$14,482	-	-	-	-	\$14,482
City One-Time Additional Funding	-	-	-	-	\$175,000	\$175,000
Total City O&M Payments Received	\$428,265	\$413,783	\$413,783	\$413,783	\$588,783	\$2,258,397
Consultant-calculated O&M Expenses	\$329,171	\$311,750	\$254,346	\$300,421	\$272,628	\$1,468,317
Basic Staff Costs (Salaries & Benefits)	\$152,730	\$184,224	\$183,021	\$195,517	\$206,998	\$922,490
Difference	-\$53,636	-\$82,191	-\$23,584	-\$82,155	\$109,157	-\$132,410

### Scenario 3

An additional scenario for the City to consider is to cover 100 percent of the operations and maintenance costs of the Plaza along with "Basic Staff Costs" salaries and benefits as well as a percentage of the MHC's indirect costs. This would acknowledge that Best Practices for nonprofit budgets allocate a percentage of administrative, general, and fundraising costs to all programs. In the case of MHC, this would mean that a percentage of the CEO, CFO and accounting staff, Director of Operations (who is senior staff and oversees the facilities rentals and facilities maintenance departments, is involved in Human Resources, and programs) and any current or future fundraising and marketing staffs' salaries and benefits be allocated *amongst all* of MHC's programs including the Plaza Program, which we believe has two components: facilities and rentals.

Unfortunately we are not able to provide historical information as to how much this scenario would have cost the City each year if the scenario had been in place starting in FYE 2003. MHC never created program budgets and only tracked expenses by department. Even the latter data is not consistent because there were limited income and expense allocation procedures in place. As a

result it is difficult to determine how or why specific items were allocated to each department. In some years expenses were allocated or shared amongst all departments and in other years similar costs were only allocated to “Administration”.

While the organization incurs administrative/general expenses, in our view “Administration” is a department and not a program. While the allocation of expenses by department is a common book keeping tool, allocation by programs is a beneficial tool for organizational budgeting as the process is based on realistic support/revenue projections and not expenses. In fact foundations and other funders request program budgets when nonprofit organizations apply to them for grants and support.

We analyzed MHC’s proposed FYE 2008 budget that it will be presenting to the Board of Trustees in January for approval as another way to calculate a range as to how much this scenario might cost the City for this fiscal year. Again, MHC has not been consistent in the manner in which it created all of its program budgets. Administration, Marketing and Fundraising are listed as program budgets, which mean that these costs have not been allocated amongst all of its actual programs that it is now calling Music Education, Visual Arts, Performing Arts, Los Lupeños, and Mariachi Festival. Every program, with the exception of the Mariachi Festival, has staff salaries and benefits allocated to them. Clearly this program requires a great deal of staff time, including that of the CEO who also serves as Executive Producer of the event, in order to produce the two-day festival and related workshops.

We would further recommend that MHC allocate some of the Mariachi Youth Education program staff to the Mariachi program in addition to the CEO and accounting staff since youth education workshops are part of the festival’s offerings. As part of this process, the youth education budgets would be reduced by the corresponding amount of staff salaries reallocated to the Mariachi Festival.

We understand that allocating these staff expenses as well as a percentage of the organization’s indirect expenses will reduce the projected income that this festival is budgeted to produce. In fact, because the organization has never produced program budgets it can only guess at which programs (MHC Presents, youth education, Mariachi, Gallery etc.) are profitable and by how much, and which programs might have cost the organization a great deal more to run than it had expected.

At the end of the day, cash rules and all nonprofit organizations have to raise funds or generate income to pay for general operating expenses that include staff costs in order to balance its books. This is why we have presented this scenario because we are mindful that there are a great deal of indirect costs associated with operating and maintaining the Plaza. We might suggest that a sum between 15 to 35 percent of indirect costs would be an appropriate amount to be added to the annual O&M subsidy for these indirect costs along with the computed salaries and benefits that make up “Basic Staff Costs.” This subsidy amount would have to be determined after a revised program budget is developed and approved by both MHC’s Board of Trustees and the City.

#### **Scenario 4**

The staff positions listed under this scenario relate to the current operating model in place at the Plaza that should be allocated to a Plaza Program budget. These positions are “Basic Staff Costs” as well as the staff that comprise the Facilities Rentals Department.

This scenario, in our opinion, only makes sense if the City feels that in addition to paying for 100 percent of the operations and maintenance costs as well as “Basic Staff Costs”, it should also fund staff position that make the facility available to the public as well as to MHC for its own programming through its MHC Presents.

This scenario is a bit different from the previous one in that no indirect costs have been added to it. We note that this scenario does not take into account the rental income generated by the Plaza that offsets “Basic Staff Costs” as well as Facilities Rentals Staff Costs.

	FYE 2003	FYE 2004	FYE 2005	FYE 2006	FYE 2007	Totals 5-Years
City O&M Agreement Subsidy	\$413,783	\$413,783	\$413,783	\$413,783	\$413,783	\$2,068,915
City One-Time Cost of Living Subsidy	\$14,482	-	-	-	-	\$14,482
City One-Time Additional Funding	-	-	-	-	\$175,000	\$175,000
Total City O&M Payments Received	\$428,265	\$413,783	\$413,783	\$413,783	\$588,783	\$1,468,317
Consultant-calculated O&M Expenses	\$329,171	\$311,750	\$254,346	\$300,421	\$272,628	\$1,468,317
"Basic Staff Costs" + Facilities Rentals Staff Costs (Salaries & Benefits)	\$218,714	\$325,562	\$219,494	\$221,987	\$262,859	\$1,248,616
Difference	-\$119,620	-\$223,529	-\$60,057	-\$108,625	\$53,296	-\$458,536



### **Mexican Heritage Corporation's Financial Requests to the City of San Jose as Operators and Programmers of the Plaza**

We asked MHC to provide us in writing what amount it believes the City should be providing it annually as an O&M subsidy in its role as operator and programmer of the Plaza. We also asked the CEO to outline the organization's other financial requests for consideration by the City so that it can correct what it considers to be a major issue: its under capitalization and lack of financial support from the City since the facility opened and the organization became its operator and programmer.

We have added several comments to this section as well in italic.

1. MHC is requesting a \$1.3 million annual O&M subsidy from the City to pay for operations and maintenance costs for the Plaza as well as to cover 100 percent of the following staff costs (in alphabetical order):

- Accounting Clerk
- Accounting Manager
- CFO
- Custodian
- Customer Relations Associate and Assistant to the CEO
- Director of Operations
- Facilities Evening Supervisor
- Facilities Maintenance Manger
- Facilities Rentals Associate
- Facilities Rentals Manager
- President, CEO, and Executive Producer
- Theater Technical Director

*According to MHC, the annual O&M payment is not intended to be "static" and having it paid either quarterly or monthly by the City is acceptable. MHC's CEO provided the Consultants and the City with the following related statement:*

“We assume that, in the event that the City Council approves our continuation as operator of the Plaza, we will then enter into negotiations with the City Manager on a new contract. At this point, we would expect to negotiate an appropriate cost of living increase to the annual payment, as well as potential bonuses paid upon completion of agreed-upon targets and milestones. We would look to the City's facilities contract with Team San Jose or the Sharks for guidance on the form those earned revenue objectives might take, but at the same time it will be important to remember that our objectives must be synergistic with our status as a not-for-profit arts programmer, while Team San Jose and the Sharks organizations are venue operators and a sports and entertainment company. We need to be able to maintain an appropriate balance between our role as a programmer and our role as an operator.”

2. We asked for further clarification for examples of the “revenue objectives” or “targets” and we received the following response from MHC’s CEO:

“We would need to explore this further with the City but the following come to mind at present - payment of bonuses for the following target areas:

- Creating new savings in energy usage
- Creating new incentives re "green" use of the venue that reduce waste, improve re-cycling, etc.
- Increasing local/regional/national partnerships to deliver arts programming that is high in artistic and production/education value but delivers the program with greater efficiency and less cost
- Increasing revenue through social venture/entrepreneurial activities that are synergistic to our arts mission such as implementation of food service or restaurant concession with a local restaurateur
- Agree on a goal to raise money by monetizing naming of physical spaces at the venue”

3. Forgiveness of the remaining balance on the \$650,000 zero-interest loan made to MHC in 2000. Currently the organization has repaid \$150,000 of loan and there is an outstanding balance remaining of \$500,000. In addition, MHC wants to be reimbursed by the City for the \$150,000 that it has paid on the loan balance.

*It is not clear to us if the forgiveness of this loan and repayment of principal is a stand alone request or tied to the recent \$1,000,000 State of California that the organization received to make capital improvements to the Plaza. This grant request was submitted to the State with the Redevelopment Agency and funding was received that was spent on upgrades to the HVAC system, landscaping and other areas of the facility. Because we have not seen the full list of capital improvements, we were not able to compare them to the unit replacement responsibility list in the O&M Maintenance Matrix. We are making the assumption that MHC is requesting compensation from the City for overseeing the improvement in the facility and/or because the City would have been responsible for paying for these unit replacements. We note, however, that the Redevelopment Agency worked closely with MHC on all aspects of this project and the City did not have to pay for any of these capital improvements out of the City's budget.*

4. MHC believes that it has “subsidized” the Resident Art Partners by providing below market office rents as well as facility rental charges for the use of the Plaza’s various venues and

classroom space. According the MHC, they are requesting, "Compensation for the eight years of past subsidy MHC has provided to the RAP program." We were directed to the June 5, 2006 letter that the CEO sent to the former City Manager.

In this document, MHC states, "it loses a minimum of \$300,000 [a] year — \$100,000 in lost earned income as a result of the lower-than-market rental rates it is obligated to charge the Resident Arts Partners for the use of the theater facilities and another approximate \$200,000 in lost revenues due to production, programming, and earned revenue opportunities arising out of scheduling conflicts with Resident Art Partners programming. These costs, combined with expenses associated with RAP use of the facility, the rising energy costs associated with general facilities maintenance, as well as management and fund development set backs experienced in the Plaza's formative years, significantly contributed to MHC's existing financial deficit."

In more recent email correspondence with the Consultants, MHC calculated that the RAPs had cost them \$60,000 last year over what they had paid in rental fees if facility staff costs had been added to the facility rental charges.

In summation of these financial requests to the City, the CEO stated the following, "These amounts, in addition to the annual subsidy would provide an appropriate re-capitalization of MHC and a sound financial base to move forward. We believe, and we would ask that you communicate this in your report, that the City would likely need to entertain providing similar economic incentives to any third party venue operator who would assess the financial cost of maintenance and operations of the Plaza on a de novo basis."

## Memorandum

**To:** Debra Figone, City Manager, City of San Jose  
**Subject:** Response by MHC to Consultant's Reports  
**Date:** January 16, 2008

### Introduction

This memorandum and attachments sets forth the response of the Mexican Heritage Corporation ("MHC") to the consultant's reports received on January 2008 (the "Report").

Prior to addressing the financial and operations questions posed by the inquiry concerning the Plaza operating model, we believe the community should also ask the following – is the Plaza better off today than four years ago, when the present MHC management assumed its responsibilities. The answer lies in the Plaza itself. Four years ago the venue suffered from six years of deferred maintenance and heavy wear and tear. Critical equipment and systems such as air conditioning no longer functioned. The garden was in decay. Trash was strewn throughout the campus. The administrative offices were unkempt and dirty. The parking lot was rented as a used car sales lot. Staff moral was worse than the condition of the physical plant – pride of ownership, a culture of excellence and innovation was lacking. The MHC finances, as was well documented, were in complete disarray. The Plaza's reputation – as characterized by one prominent arts senior program officer "was a joke."

Today, the Plaza sparkles. It boasts a \$1 million make-over (funded by a grant secured by MHC from the State of California) with new HVAC systems and controls, refurbished floors and lights, new security systems, refurbished admin spaces, garden landscaping, exterior lighting, hardware, and public art. The Plaza's programs have received critical praise, funding and excellent audience attendance. The Plaza's staff is now recognized – both at City Hall and by Plaza stakeholders, for their *esprit de corp*, ingenuity, excellence in program delivery and pride in their care of the Plaza. Under MHC's stewardship of the Plaza and its mission – a mission and vision which were approved with the City's participation and that of community leadership – the venue has re-emerged as a vibrant, cultural center attracting patrons from the local community, the region and even the nation.

### Historical Summary

We note that the consultants completely ignore important historical information that bears directly on the accuracy of the "findings" described therein – namely that the

highest and best use should be locally driven and neighbor-hood based, as opposed to regionally focused with a strong local community programming aspect.

The work of the Plaza's Board and staff began in October 2004, when the corporation commenced an extensive financial and management reorganization. This decision followed several years of MHC's struggle to create a sustainable business model for the operation of the regional arts venue known as The Mexican Heritage Plaza, notwithstanding financial support it received from the City of San Jose, which owns the venue. As described more fully below, the challenges faced by MHC since its selection as the exclusive operator of the Plaza facility in 1999 were both external (such as a severe downturn in the local economy) and internal, (e.g., lack of staff and Board capacity, and lack of professional management).

By the fourth quarter of 2004, MHC faced a severe financial crisis. Its locally-based community programming model was an abject failure -- the corporation's expenses significantly exceeded its revenues, fund development was non-existent, programming was unprofessional and narrowly focused resulting in a poor reputation with audiences, and with funders from both the corporate and philanthropic sectors. Moreover its exclusive focus on community-based (e.g., grassroots) programs in some cases alienated potential individual donors who felt excluded and unwelcome and also made it difficult to attract funding from regional or national corporate players who might support programming that could attract a broader, diverse regional audience.

Without a radical and innovative change in how MHC did business, it would need to file for bankruptcy protection. MHC faced an immediate need to restructure the operation but it decided not to appeal to the Plaza's owner, the City, for financial assistance. Instead, MHC proceeded to determine if a sustainable arts management model for the Plaza could be proposed that would warrant such a discussion, and subsequently set upon a course of self-correction. The plan consisted, in essence, of reorganization outside of bankruptcy and included internal financial reviews to determine whether any sustainable operations model was possible given the unique constraints it faced.

Specifically, the restructuring encompassed a top-down and bottom-up survey of the old operations model and the completion of several critical milestones, including but not limited to:

- The adoption of a comprehensive Board strategic plan;
- The reorganization of the Board of Trustees to fully transition from its origins as a grass-roots governing body to a governing body focused on meeting its fiduciary obligations and fundraising goals; and
- The conduct of a national and international CEO search and the hire of an experienced senior banking and entertainment industry executive with expertise in non-profit and arts management.

By the end of FY 2005-2006 MHC was able to report a modest operating surplus, a newly revamped programming model, and a visual and performing arts season that resulted in critical acclaim and record revenues. By FY 2007-2008 MHC completed a comprehensive capital refurbishment of the venue, correcting years of deferred maintenance, totaling \$1,075,000. These funds were secured by MHC and invested into the Plaza. Its reputation as a regional and community based programmer is firmly established, with grant awards from prestigious arts funders (NEA, Flora Family Foundation, Castellano Family Foundation and California Arts council to name a few), laudatory reviews in local, regional and national media and record-breaking attendance at Plaza events and events located in downtown San Jose. Its programming is a balanced mix of community-based events such as community celebrations (Grito, Hispanic Heritage Festival, Cesar Chavez Arts Festival) participatory classes (folklorico, Pee Wee mariachi classes, visual arts classes) and regional arts events (for example, the recent Martin Ramirez exhibition, Jorge Osorio concert and Pachanga outdoor concerts). Its regional performing arts events are also designed with a local component (Jorge Osorio performing for local school children, for example).

MHC's proposed new operating model would leverage those elements of its business plan that affirmatively attempts to achieve sustainable growth, with reduced dependency on City support, within five years. In other words, MHC believes in the power of using a private sector, market based approach to serve a community purpose -- not a bailout and certainly not a handout, but a realistic capitalization of a new, social venture company that is pegged to industry and state standards for facilities maintenance and academic achievement.

#### **Mission of the MHC – Believing in the Power of “And”**

MHC's stewardship of the Plaza adheres to basic fiduciary and governance best practices – it follows a mission statement that was approved in 2003 and encompasses a facility use that embraces both the Mexican culture and multicultural arts; and a programming policy that is both regional in focus and community based. Specifically, the mission of the MHC is to affirm, celebrate and preserve the rich cultural heritage of Mexico and showcase multicultural arts *in the region*. This mission statement was facilitated by a consultant retained at the request of, and funded by, the City. It was vetted and approved by MHC's Board of Trustees which included members of the local community leadership, founders of the MHC and the elected officials responsible for securing the original construction financing for the Plaza. It specifically embraced an identity of inclusion and the Plaza as a destination venue.

#### **Discussion of Structural Issues**

##### **The Current Situation: The Plaza is in a Critical Stage in Its Growth and History**

The Plaza is a multi-disciplinary arts center that both presents and produces artistic and cultural events in several venues – a theatre, gallery, performing arts pavilion, gardens and central plaza. MHC is governed by a Board of Trustees and maintains a staff of eleven. The facility itself is owned by the City of San Jose. Funding sources include major philanthropic organizations, the City of San Jose, and earned revenue from sponsorships of programs, ticket sales to performing arts events and facilities rentals.

The Plaza is entering a critical phase in its growth, have just completed a \$1 million capital improvement program and building increased brand awareness following two years of re-structuring of its financial, operations and program functions, which have resulted in significantly improved and critically acclaimed visual and performing arts programming. MHC management believes the Plaza is now uniquely positioned to deliver on its dual mandate – whether under its existing corporate structure or a new entity – to serve the local community and reach what has been called "The Emerging American Audience" - the culturally diverse, tech savvy and increasingly younger, consumer of arts and entertainment content in Silicon Valley and the greater Bay Area.

#### Background on the Plaza Operations Model

As reported in the City's audit, the original model for the operation of the Plaza, including facilities maintenance and programming, was established over seven years ago by the City of San Jose and MHC. The original model contemplated an arrangement in which MHC would provide facilities management and some programming functions but that community arts groups would provide the majority of programming for the Plaza in exchange for steeply discounted rental rates for usage of the Plaza theatre, offices and other Plaza venues. This model was implemented at the recommendation of an arts management consulting group called The Wolf Organization Inc. who were commissioned by the City of San Jose to assist the City in determining an appropriate operations model for the new facility.

In 1995, three years after the City and RDA initiated development of the Mexican Cultural Heritage Gardens with the MHC, the RDA contracted with the Wolf Organization to conduct an operation and management study of the MHC facility. The consultants were asked to examine the theatre, related performance spaces, galleries, and studios as well as public use spaces such as classrooms, multipurpose rooms, and the outdoor plaza in order to provide a full operating plan. The findings of this study identified numerous challenges that both the City and the MHC would need to address regarding the facility and MHC's capacity.

In addition to the challenges set forth in the City's audit, the Wolf Report made observations regarding funding challenges that both the City and the MHC would encounter if the project proceeded. In addition, the Wolf Report noted the importance of justifying the project and its subsidies (in 1995 the Report recommended an annual subsidy of \$600,000) to taxpayers and making clear what objectives are being served by

this outlay of dollars. Specifically, the Wolf Organization noted the importance of sufficient funding to subsidize use of the facility by the resident arts organizations and the fact that as of 1995, only the City was in a position to offer such support. The Wolf Report stated this would be the case for many years to come and must be factored into the City's total cost in supporting the operation of the facility. We believe the process jointly undertaken today by MHC, City staff and community members will present a complete analysis to enable the community and the City Council to understand the complex facilities issues the Plaza presents.

#### The Wolf Recommended Operations Model Is Not Sustainable Due to Multiple Factors

The ability of the MHC to sustain the operations of the Plaza facility has been severely impacted by multiple factors. These include:

- the downturn in the economy in 1999-2001;
- MHC subsidizes the programming of the current resident arts organizations through its payment of all facilities expenses of the venue and its provision of steeply discounted rental rates to the organizations;
- the lack of any revenue sharing arrangement between MHC and the resident partners;
- MHC's inability to mitigate the impact of the subsidy it provides to the resident partners since it cannot offer inventory to commercial renters or non-profit arts organizations who can pay MHC's standard commercial or non-profit rental rate due to scheduling conflicts with Resident Arts Partners programming;
- The unwillingness of philanthropy to fund operations costs of the Plaza venue such as key staff positions and facilities maintenance;
- rising energy and other costs associated with general facilities maintenance; and
- management and fund development set backs experienced in the Plaza's formative years, arising, in part, from MHC's industry inexperience, which resulted in financial crisis impacting staff and programming capacity.

#### The MHC Board Determines It Must Re-Structure the Operating Model to Achieve Sustainability

In addition to the corrective items listed above, beginning in 2004 MHC completed the following critical milestones:

- a Board retreat to review and confirm the Board strategic plan;
- additional recruitment of new Board members from the tech community, consumer retail business and legal community;
- internal assessment of the agency's financial management systems and implementation of systems procedures and controls to ensure adequate oversight and financial reporting;

- internal assessment of the agency's fund development systems and the creation of a comprehensive business plan (which is attached);
- reduction of expenses and imposition of a strict zero based operations budget;
- imposition of an innovative programming model to solve its three most critical challenges:
  1. First, to create arts programming of the highest artistic and production values;
  2. Second, to deliver arts education programming to San Jose youth with curriculum that meets current State guidelines and industry standards, and
  3. Third, to achieve the foregoing within a business and operations model that is financially stable and sustainable.

MHC's new program model develops, produces and delivers content and education programs through collaborations, joint ventures or joint production arrangements with "best-of-breed" content companies or education organizations, whereby the cost of production is shifted to or absorbed by the content partner. Content development and marketing strategies are well informed by market data on emerging populations in Silicon Valley and nationwide. This allows MHC to leverage its most significant asset - the Plaza - to secure and deliver programming that a) increases revenue without taking on undue financial risk and b) to deliver content with high production and artistic values, thereby offering the community excellence in arts programming while enjoying higher margins and cost efficiencies.

MHC produced or presented programming relaunched in 2005 to critical acclaim and recognition in the media and with funders in philanthropy and the corporate sector. Most recently, MHC was awarded a grant from the National Endowment of the Arts, was featured on national and international broadcast outlets, and highlighted by the San Jose and San Francisco arts critics as being in the regions "top ten" list for visual and performing arts offerings. As a result, the Plaza's brand is now recognized for quality, innovation and artistic excellence.

### **Discussion of Consultant's Findings**

#### **Overarching Framework**

1. **The community values the Plaza highly and feels a strong sense of ownership.**  
We agree that the history of the site and the building itself makes it an important symbol for the local Mexican and Mexican-American community. Whether this finding is program determinative is a different question. This finding also does not answer the question of the local community's desire (or lack thereof) to fund and support that sense of ownership. It does support the use of the facility as a destination venue, attracting visitors from the state, region and the nation, to celebrate and learn about the historical significance of the Plaza's location and neighborhood.

2. **With the benefit of hindsight, many in the community expressed that today they would make different decisions about the design and operating arrangement of the Plaza.** This was also a finding of the City Auditor and one with which we agree.
3. **We found among the community and art professionals that to achieve true distinction – a reputation for excellence far and wide and a unique quality that sets it apart – the Plaza's vision, programs, and management models need to be grounded in the unique character and assets of its home community and the attributes it possesses.** We agree; a reputation for excellence in general should be grounded in a unique strength and character. But what is most interesting about this finding is its aspiration towards "a reputation for excellence far and wide." The community should ask itself whether the consultants' recommended programming model, with its narrow focus, is likely to attract such a reputation.
4. **Two contrasting schools of thought dominate discussions about the Plaza; one approach emphasizes the lack of external financial capital (deficit model), the other seeks to develop community buy-in as the foundation for sustainability (assets model). The community strongly believes that a healthy balance between these two ideologies is lacking in the current Plaza operating model.** We agree that "a healthy organization needs both forms of capital to succeed." We continue to strive to command and hold the respect of all the Plaza stakeholders. However, unlike many not-for-profits who are not operating major facilities, there is a minimum amount of real, tangible capital that is required to operate the Plaza safely and properly. We cannot cut back on costs that would make the Plaza dangerous to occupy and we cannot use social, artistic, or political capital to keep the fountain repaired and safe, emergency generators and the elevators running, the lighting on in the theatre and the stage rigging and fly system functional and free from dangerous defects. A not-for-profit without a building to maintain might have the luxury of keeping costs down until they build up enough intangible assets to move them towards higher cash balances. The Plaza operator cannot have that luxury.
5. **The public is weary of the seesaw dynamics between the City and the current Plaza operator.** We object to the use of such inflammatory language to describe the current relationship between MHC and the City. Our relationship with the City is one of mutual respect and a shared commitment of stewardship for the Plaza, which, over the years has experienced differences in points of view as City administrations and Plaza management changed. Fundamentally, this is a business relationship, subject to negotiations and contract discussions, which may include disagreements and disputes. As the saying goes, it's business, not personal. If the

City and MHC cannot, at this point, come to an agreement on the proper model for operating the Plaza, MHC will certainly opt to step down as operator rather than continue a business relationship which makes no economic sense.

6. **The public is ready for a comprehensive solution to the Plaza's dilemmas.** There is a widespread sense among the community that short-term adjustments, last-minute bailouts, or defensive posturing would not move the Plaza closer to stability. We are ready for a comprehensive solution as well. In fact, we believe that we are in the process of implementing one. We have done significant work in recent years to bring the Plaza to its current level of maintenance and programming and we are improving both every day. Our new proposal for a Plaza operating model is based on understanding first, the financial operating cost, and second, creating revenue streams through programming. The public should ask itself whether a comprehensive solution is more likely to materialize from this kind of measured, consistent progress and revenue-based programming or from the kind of sweeping changes and reconstructed operating model that the consultants suggest.
7. **The community recognizes that the prevailing economic conditions in the City of San Jose and the circumstances surrounding the Plaza in 2008 are substantially different than those nine years ago when the Plaza first opened.** We agree that the City of San Jose, as well as MHC, "can do better in terms of supporting its cultural facilities and organizations." That is exactly what we are asking the City to do and what we have committed to as well.

#### Local Assets, Visions, Uses, and Identity

1. **The community's overwhelming consensus is that the Plaza's core identity and optimal use is as a cultural center serving the community and not as a regional arts venue.** Of course the Plaza draws its flavor and character from its unique geographic location. Of course the Plaza operator should strive to be relevant and welcoming to the "community" in its immediate geographic vicinity. However, even the consultants' own observations about the people who came to the focus groups confirms that people from "throughout the region feel passionately about the Plaza and see it as "meaningful" to their sense of belonging."
2. **The community clearly understands that a "cultural center" is not the same as a "community center."** We agree that there is room in an arts-culture continuum to address elements of local community life. MHC's formal programming plan, which is attached and with which the consultants were provided, encompasses this vision. MHC's exhibition on lowrider automobiles,

(an art form born in East San Jose) which is currently being mounted in our gallery is a perfect example of this.

3. **An operational model of the Plaza as a self-supporting performance / presenting venue primarily oriented to booking commercial entertainment (even Latino culturally-specific events) is not economically viable.** Since MHC's programming model is not primarily oriented to booking for profit entertainment concerts, we fail to understand the reason for this finding. If the consultants' contention here is that the Plaza cannot operate as a fully self-sufficient commercial presenting venue without any City funding, then perhaps they are correct. The Plaza certainly lacks the physical capacity to handle huge, commercial acts like those at the HP Pavilion. But if the consultants' contention is that an individual commercial entertainment act presented at the Plaza cannot be profitable, this is simply not true. MHC has presented several concerts in the Plaza at a profit and these revenues have been utilized to support and maintain the venue and its programming. We also fail to see how the data cited in this finding at all supports the consultant's contention. This extensive discussion of Latino entertainment only underlines the huge base of consumer support there is for this kind of programming throughout the Bay Area. It is for this reason that the Plaza has been approached by several for-profit concert promoters, media companies and corporate sponsors about use of the Plaza venue for community concerts.
1. **The community's preferred use of the Plaza is as a site for participatory artistic / cultural endeavors such as classes, workshops, civic celebrations, social gatherings, community meetings, and long-term cultural initiatives that collect and interpret the local community's heritage and social history.** This finding is flatly contradicted by the earlier discussion of the community's desire for a balance in programming and by the record attendance of Plaza performing arts events. These sorts of classes and workshops were provided in the past and discontinued for financial reasons. There is no data provided by the consultant that suggests that there is a sustainable demand for such activities. Moreover, there is no inherent conflict between presenting high-profile, revenue generating events and community education offerings of the kind here described. In addition, there are numerous other venues in the vicinity, including two new community centers under construction, that are suitable for community meetings and gatherings and only one that is suitable for high-profile concerts and exhibits. Use of the Plaza as both a regional art center and a place where community programming is available benefits the entire community and the City's own desire to attract visitors and improve its tax base, by creating an exciting vibrant cultural landscape where business will want to locate and where there is a robust economic impact.
2. **There is a strong desire in the community to see dance and music classes re-instituted at the Plaza.** Again, this comes down to the issue of the primary

purpose of the Plaza. MHC's Board and staff would like to see the reinstitution of music and dance classes on site in addition to its robust programs in the local schools. However, a sustainability model for this reinstitution would need to be a priority in future years. Previously, the classes contributed to the Plaza's deficit over the years. If MHC's present proposal is accepted, it must be managed in a sustainable manner, and leveraged to build support and new audiences for the Plaza's other presentations. We note that the actual classroom venues within the Plaza campus are limited to two rooms – we believe this space could be easily converted to provide for up to six sound proof music classrooms. With appropriate investment, the gallery could be converted to dance and music classroom space. The Pavilion, while suitable for dance classes, is a popular venue more often utilized for revenue generating, multi-purpose use such as weddings, meetings, rehearsals, performances and dinners.

3. **The community values the existence of a residency art program (RAP) at the Plaza; the great majority of specific “branding” the Plaza has today is associated to RAP activities (Teatro Vision, San Jose Minority Artists Guild, and until recently Los Lupenos which now are part of the MHC organization.)**

Again, no data has been provided in support of this contention.

We too value our RAP program. However, we disagree that the majority of the Plaza's brand association is through their programming.

First, the Plaza's brand is based on a combination of factors, including critical reviews, media coverage and actual audience or client experiences. In the last three years, MHC's programming has received numerous accolades and awards and based on its repeated and growing rentals business, the community perceives the Plaza as an excellent venue for private events. **Indeed, it is for this reason that the Plaza continues to be selected by prominent content companies and promoters for their events. This identity should not be discarded, but further leveraged to support the proposed education program.**

We also value the existence of a RAP program and agree that it ought to be beneficial to both parties. The contentious history of our relationship is informed by the economic arrangement originally created to govern the RAP program. That doesn't mean that MHC does not respect the RAP programs. The challenge which confronts both the MHC and the RAPs, as aptly expressed by Teatro Vision's Executive Director, is that if the program is not heavily subsidized, it is essentially priced out of the Plaza. The fact is that the average audience for a Teatro Vision production is approximately 115 persons per show. The Plaza's theatre seats over 500. While the artistic output of the RAP programs is uniformly praised, based on these audience numbers, the utility of supporting the

RAP program at the Plaza is poor. With so many other arts programmers willing to pay MHC's full non-profit rental rate, one must question the expense to maintain such a program at a venue which is too large and expensive for the type of theatre Teatro and SJMAG produce.

Second, above and beyond the incorrect appellation for SJMAG, there is a great deal wrong with the consultant's argument in this section. **The assertion that "the RAPs have not been a burden on the Plaza operator in the manner in which has been described" is false.** We have attached a detailed schedule of expenses and revenue for the RAP program. The fact is that neither City funding nor the rent paid by the RAP partners covers MHC's O&M expenses. While the RAPs have not completely foreclosed renting the theater to other users, MHC has turned away business from renters who can pay MHC's full non-profit rate card due to conflicts with the RAP seasons. The fact that dates are available to Los Lupenos for rehearsal does not mean there is no detrimental impact to MHC from the RAP program. Moreover, the consultants demonstrate a lack of understanding of our scheduling when they imply that Los Lupenos rehearsals prevent us from renting the space to other users, as we always give potential rental income priority over Los Lupenos rehearsal and when there is a conflict, make arrangements for the company to rehearse off-site in order to realize the income.

4. **The Mariachi Festival is considered by the great majority of community members a high quality and high-visibility event, but many expressed concern that it is largely disconnected from the Plaza.** Once again, this finding is simply not based in fact. There are many festival events taking place at the Plaza – our student showcase, festival gala dinner, and related gallery exhibition are examples. Moreover, MHC's sponsors and audience members have routinely expressed the view that the mariachi festival must be located in a venue suitable for a large festival, which is also a major destination event for the City. The Plaza is not only too small for the mariachi festival, its physical plant is too fragile to accommodate crowds exceeding 5000 and applicable fire regulations in any event prohibit larger events taking place there.

Even though the Festival has outgrown the Plaza, there is still significant spill-over to the Plaza in terms of corporate and artist interest in the venue. Relationships built during the Festival can be brought to bear to help the Plaza. The Plaza's growing relationship with Univision is a perfect example. As a result of the outstanding relationship between the mariachi festival and Univision, the Plaza has been selected by Univision for a series of important community town hall meetings addressing important issues such as health care, the presidential election and education. And Target Stores has selected the Plaza for a new annual community family event scheduled to debut this May. Finally, MHC's hugely popular PeeWee Mariachi classes, which originated at the festival, have been and currently will be offered at the Plaza in February.

5. **There is widespread consensus among the community on the importance of making changes to the Plaza's physical set-up to accommodate new rehearsal and instruction spaces that can facilitate folkloric music and dance instruction.** We agree. MHC has applied for funding to do just that and continues to work with the RDA to source available funds to build out the vacant pad next to the theatre. This is also a question of sustainability, and practical logistics. The Plaza has two classrooms, neither of which are designed for music instruction, but which could be easily converted for this use. Classes could take place in the theatre, but that is an expensive option in terms of staffing and upkeep. The Pavilion is often booked for other events which create revenue. The gallery could be converted to rehearsal and education space (we note it was recently refurbished as a gallery space and in terms of bringing attention, pride, and visitors to the area, it has served the community well with successful shows such as the recent Martin Ramirez exhibit.) The ultimate answer to this concern may not include converting the gallery, but the construction of additional rehearsal and classroom space, similar to the facilities at the Community School of Music and Art in Mountain View. This space could be planned as part of a mixed use addition, with a retail component, that would add both revenue and build community engagement. MHC has been in discussions with both City staff and RDA for several months on this potential project and currently is working on a planning document with RDA staff that will allow for improved zoning in the district to attract private investment and development of the adjacent pad. MHC's activity on this subject was also disclosed to the consultants.
6. **The overwhelming majority of people we talked to responded negatively to the Plaza operator's characterization of the Plaza's artistic aspirations as a "Latino Lincoln Center."** It is misleading to say that "a great deal of its artistic vision for the Plaza has been elaborated around the concept of a Latino Lincoln Center." The official branding of the Plaza, as evidenced in our marketing and collateral is "Come Visit the Art and Soul of Silicon Valley – The Mexican Heritage Plaza." From a fund development standpoint in terms of corporate sponsorships, this tag line has been highly successful. And from the standpoint of audience attendance at MHC presented and produced events, the branding has also been highly successful.
7. **The Plaza's core audience demographics are overwhelmingly local and Mexican/ Mexican-American.** This depends entirely on the program being referred to. The East San Jose community is characterized by a rich, diverse population. We note, for example, that MHC's audience for Juan Gabriel was primarily Mexican. The audience for Jorge Osorio had a different demographic makeup. Finally, MHC and the Plaza enjoys a very loyal performing arts rental client base whose audiences are almost exclusively East Indian, Vietnamese and Chinese. The Plaza welcomes everyone and is enjoyed by a diverse community

of arts patrons. We note also that Federal, state and local law prohibits discrimination based on race, and MHC's policy adheres not only to equal opportunity but to equal access.

8. **Mayfair and East San Jose neighborhoods are themselves deep wells of Mexican tradition, pride, and cultural activity – both on formal and informal levels – and can provide direction to programming of high quality and high relevance.** As we state elsewhere, it is our observation that the East side now boasts a diverse population of new and second generation immigrants from Asia, Mexico and Central and South America. We might ask if the consultant's monolithic characterization of the neighborhood is accurate and simplifies the issues when considering programming choices. The Plaza welcomes community input – however MHC's programming plan and vision follows a structured plan, which has been vetted and approved by the MHC Board. As an independent arts programmer, MHC must have the freedom to develop programming according to its articulated artistic vision. This does not prevent other community groups from presenting or producing their own programs at the Plaza, as the RAP partners do, and as numerous non-profit arts companies have.
9. **The community's confusion about the Plaza's mission is well founded; in the course of ten years, the stated mission has changed both in spirit and in text.** A single change in mission in ten years can hardly be classified as either confusing or unusual; many not-for-profits refine their missions as they evolve. Moreover, the report's implication that MHC amended its mission at the last minute simply misstates the facts. MHC adopted a new mission statement in 2003 that a) focuses on arts programming instead of economic development and b) affirms an inclusive identity to showcase diverse, multicultural arts in the region. This was codified by a unanimous resolution in the corporation's minutes in 2003. It was vetted by community leaders, elected officials and MHC Trustees. The mission was inserted into MHC's bylaws this year as a housekeeping measure. These facts were also explained to the consultants.
10. **The community values the rental function of the Plaza, especially for weddings, quinceaneras, corporate events, and other community-based celebrations and local gatherings.** We also appreciate this aspect of our mission; it's an important component of our operating model.
11. **Despite repeated references about the "fortress" design of the Plaza, many in the community expressed strong support for and enjoyment of the overall Plaza design and its amenities. Nonetheless, there is consensus that select architectural and cosmetic improvements to the facility are needed to**

increase the *perception* of community access, participation, and buy-in. We agree that more public art, better lighting, etc. could enhance the facility and would love to see RDA study this.

12. **There is an overwhelming sense in the community that the completion of the economic redevelopment of the Alum Rock and King corridor is intrinsically connected to the long-term sustainability of the Plaza.** We agree. We also think that the Plaza will be in a much better position to contribute to that economic redevelopment as a regional arts and education center rather than as a neighborhood community cultural center.
13. **There is a strong desire by many people in the community to be involved in a process for designing anew or re-tooling the operational and organizational model for the Plaza and to actively contribute to multiple aspects of the Plaza's fundraising and strategic planning.** An auxiliary community fundraising body is a great idea. The new joint venture we propose could serve in this capacity – such an endeavor should ensure that we all have the same understanding of the Plaza's mission and purpose first, or more conflict will inevitably arise.

The new joint venture could also provide a mechanism for the participating agencies to share back office functions, such as finance, bookkeeping, and HR and to purchase common services, such as landscaping, plumbing, cleaning and security services “in bulk” to achieve cost efficiencies.

14. **A review of cultural organizations and facilities comparable to the Plaza in six cities in California, Texas, and New Mexico reveals that despite a wide range of diversity in structure and funding, each organization's success can be measured in direct proportion to how it meets local needs, activates local resources, and clearly identifies its core competencies and artistic niches.** We agree. We already have broad-based partnerships and mixed public/private funding. Our focus, which did suffer for a while due to financial difficulties, is becoming more focused and disciplined every day. Our strategic plan, artistic program plan and fund development plans, all include local programming plans within a regional arts center focus.

#### Financial Sustainability

1. **The community overwhelmingly believes that the current model that blends responsibilities for maintaining the Plaza facility as well as programming it into one single arts entity / operator is not working.** The issue here is not whether a single entity could or should both act as operator and programmer. Many arts centers function under this type of management quite successfully.

With the exception of the museum of art, the City's downtown cultural facilities all employ this model. The question which should be asked is why are some successful and others challenged? What type of support does each operator receive and why? MHC works hard to maintain the special beauty of the Plaza which is currently in excellent condition due to our recent refurbishment of the plant. This refurbished facility requires much more care than the plan the consultants suggest, whereby the City spends only \$340,000 on O&M and employs only two custodians to be on site.

2. **There is overwhelming community consensus that the Plaza should be treated as a community-based resource/facility much as the City treats libraries, neighborhood, and youth centers.** This finding appears to contradict another finding that the community recognizes the difference between a cultural center and a community center. The Plaza is a multi-disciplinary arts venue, designed to serve the citizens of San Jose and to be a destination venue. For this reason the City historically has promoted it as a regional arts center and secured appropriate highway and freeway access signs for visitors to the City. Its ability to bring visitors to San Jose may be enhanced through the development of new amenities such as classroom space and permanent exhibits celebrating the history of the district and the legacy of Cesar Chavez and the Chicano civil rights movement, similar to the Martin Luther King Jr center in Atlanta, Georgia.

Moreover, there are numerous community centers already serving the Mayfair neighborhood and two new community centers are under construction. Common sense requires asking why the City should pay for another one. But beyond the issue of appropriate asset mapping of the area, which is not addressed in the report, community use of any facility, especially in the evening, entails expenses beyond just the electric bill, although that has to be a consideration to an undercapitalized operator. There is also the question of hiring additional staff and/or security to make sure that the people using the Plaza are safe and to ensure appropriate risk management of facility use.

3. **Despite noting a range of opinions as to what expense ought to be considered eligible under Operating and Maintenance costs, there is widespread agreement about a community-standard definition of O&M.** There is something of a contradiction here. On the one hand the consultants say that administration shouldn't be included in O&M. On the other hand, they include any expense necessary to open the doors, keep the facility safe and clean, and make the facility accessible. None of this can be done without an admin function.

Moreover we don't know what is meant by "a community standard definition of O&M" If there is a standard definition, why is it not in use at the other San Jose cultural facilities? If what is meant is a model that assumes leveraging community

assets will create sufficient financial resources to maintain the Plaza, we believe this view is contradicted by past experience and the practical economic realities of facilities maintenance. The Plaza is a large, specialized venue that requires expensive specialized maintenance. No amount of community volunteers or leveraging of social capital will solve the fundamental maintenance requirements the Plaza presents.

Instead, the Plaza's own physical assets should be leveraged to generate income – the parking lot should be a fee based asset. The theatre and tower should have electronic signs installed that could feature appropriate community messages and advertising for a fee. The naming rights of the Plaza theatre, Pavilion, classrooms and gardens should be licensed for a fee. The Plaza's kitchen could easily be converted to provide for a small café at the Plaza, which could increase revenue to support O&M. All of these income streams are “low hanging fruit” which could be easily realized within a few months, working in partnership with the City. Our business plan contemplates the generation of these income streams.

**Finally, we note that the expense calculations created by the consultants use MHC historical cost data and excludes the recent capital refurbishment costs. It is well documented that the Plaza's facilities maintenance needs through 2005 were provided for under extreme financial circumstances. Maintenance was deferred to the point where key systems failed and required replacement or refurbishment. This system improvement and refurbishment is now complete – but the accurate way to assess maintenance costs is not by using incomplete historical maintenance cost data – it can only be achieved by undertaking a present cost analysis. This was not done by the consultants.**

4. **A strong majority of community stakeholders opposes the City taking over programming responsibilities for the Plaza. We agree.**
5. **There is a clear and resounding sense of Quid Pro Quo (“something for something”) in the community concerning taxpayer's investments in the Plaza. Doesn't this argue that we ought to consider the desires of everyone in San Jose, rather than those in the immediate vicinity of the Plaza? This argument makes the community cultural center use of the Plaza less appropriate, not more so.**
6. **The analysis of O&M costs by Strategic Philanthropy Advisors, LLC has determined that depending on what types of expenses are considered part of “facility maintenance and operations,” the City's annual O&M subsidy to the Plaza in the last two years has covered between 83% and 86% of all costs (if**

**basic facility-related staff are included) and between 137% and 152% of all costs if staff is excluded.**

This discussion is fraught with numerous miscalculations and invalid assumptions.

First, embedded within it is the unspoken assumption that the amount that was spent on O&M was the ideal or needed amount. In the case of some years, this is blatantly untrue as, for example, in 2005 the Plaza was largely dark. MHC has also been forced to be very creative in keeping costs down, as a result of the limitations imposed by the city subsidy. Many staff people are stretched too thin. In the past, repairs were put off due to lack of funds (a frequent problem of undercapitalized not-for-profits.) Custodial staff and reception staff are assisted by CalWorks volunteers. While MHC's Operations Manager is adept at arranging deals with vendors, all this combines to keep MHC's O&M cost artificially low. While we believe that we ought to be congratulated for this ingenuity, we also feel that we owe it to our dedicated staff and to the people who use the Plaza to ask for the funds that would truly allow us to maintain and operate the Plaza to its best advantage. Second, even in the case where basic staff costs are included and the O&M subsidy then doesn't cover the entire O&M amount, this still does not cover all the staff needed to run the facility. An admin function is necessary – one cannot run a rentals function without an accounting department. The facility cannot employ staff and comply with state employment laws without an HR function. Operations staff require specialized supervision and the entire facility requires a fund raising department.

Third, the consultants' calculation of facility rental revenue is simply wrong, as she adds rental revenue in without taking out costs associated with it. Any additional rental revenue also results in additional direct costs (ie. house staff, event security, furniture rental). Due to the well-documented inconsistent bookkeeping at MHC in earlier years, we don't have exact figures on what the gross margin is in rentals, but our analysis of recent months of actual costs suggests that it is around 60%.

- 7. The Operating Agreements the City of San Jose has with the San Jose Museum of Art and the Washington Youth Center as nonprofit facility operators represent potential models that can be applied to the Plaza. We agree that if the Plaza operator received the same total in-kind and cash support as the SJ Museum of Art, this could be an improvement.**
- 8. In determining O&M agreements with nonprofit facility operators, the City has been approached on a facility-by-facility basis over time with each**

agreement being negotiated with the operator under different scenarios. No comment.

9. While on the one hand, the findings from Strategic Philanthropy Advisors, LLC concerning the City's O&M financial contribution to the Plaza operator leave room for interpretation based on varying definitions of what constitutes O&M, on the other hand, the level of support that the City has provided represents a form of subsidized O&M support for all of the activities that take place at the Plaza, including the RAPs. This means that the Resident Art Partners have not been a financial burden on the Plaza or the MHC organization in the way it has been described.

**This assertion is simply not true.** First, the City Attorney has formally advised MHC that the City has no obligation to subsidize the RAP programs and that whatever subsidy the RAPs enjoy is the result of the rental arrangements between MHC and the RAP partners. The assertion that the RAP rents are covering the financial deficit between the expense of the use of the facility and the actual cost of their use only holds true if we accept the proposition that all staff and utility costs associated with their venue use are covered by the city subsidy. As both the City Attorney and MHC reject that proposition, our assertion that the RAPs are not covering their own costs, including direct costs and a reasonable allocation of staff and overhead costs, is the true situation. This was also confirmed by the City Audit.

Surely one would not expect any reasonably run business to charge rates that fail to recoup their fixed costs as well as their variable costs. Such a business would obviously fail. This is all we ask of the RAP program. Moreover, regardless of whether they are currently covering their own costs, whether or not the current RAP model is the most effective for the RAPs and the operator is the key question. History indicates that it is not. **The RAPs have never had a good relationship with the Plaza operator because their financial incentives are misaligned. A more appropriate rental rate structure which covers their actual costs of facility use and the use of creative revenue-sharing agreements would create a better working relationship and encourage the two organizations to work together for their mutual benefit and audience development.**

10. The Rentals Program at the Plaza is robust and consistent; it has reliably generated income in the average amount of \$325,000 per year over the last four years; the Rental program has room to grow and expand both as income-producing and as a community access program. The consultants state that they were unable to find an explanation for the decline in rental income over the previous few years. The answer is evident even in their own report. Extreme staff cuts in 2005 (which were necessary due to the mismanagement of Plaza finances by previous managers) left the rentals office severely understaffed. The

consultants might have realized this, as they site staff cost figures that show only \$36,473 spent on rentals staff in 2005 and \$26,470 in 2006. We are now recovering from this staff reduction and rentals income will certainly be higher this year than last.

11. **The calculation of Plaza maintenance expenses using standard, flat, across-the-board rates and formulas per square foot is not reliable; these methods yield inflated maintenance expenses inconsistent with actual figures.** The consultant's analysis in this section is deeply flawed. They dismiss the use of these formulae, as they do not coincide with what they choose to consider actual O&M costs of the Plaza. However, these formulae are created and used in the real estate industry for a reason. They should not be summarily rejected. There is a very good argument to be made that the Plaza, with its gardens, fountains, and theater, can be better equated to a "high end" space than a "retail" space and therefore justifies the application of the \$18 per square foot formula. Nowhere do the consultants define the elements that are included in these square footage estimates from the real estate industry, but it should be noted that they come quite close to what MHC is requesting as a full subsidy of all the expenses that go into running the Plaza. The consultants also reject the City's "grounds" standard as inappropriate to apply to the Plaza parking lots, saying that nothing in MHC's actual expenses suggests that MHC spent \$45,000 a year maintaining the parking lots (a total of about 2.8 acres). In fact, the consultants have no way of knowing how much MHC spent on the parking lots, as that was never tracked separately. Furthermore, even if \$45,000 wasn't spent per year, it easily could be to trim the trees, maintain the bark in the plantings, service the lighting, and pick up the trash.
12. **Applying an analysis of the actual costs incurred by the City of San Jose in covering the O&M expenses of the San Jose Museum of Art, it is possible to estimate that the costs to the City for absorbing Plaza O&M expenses directly into its General Services budget would be approximately \$340,000 annually.** The consultants calculated these expenses by taking the amount per square foot that the City is spending to maintain the San Jose Museum of Art and multiplying this by the interior square footage of the Plaza and grounds, though as far as we can tell not taking into account the square footage of areas with more than one floor. This expense figure makes no allowance for maintenance costs associated with the parking lots. Evidently, the only staff costs included in this are two custodians. In other words, there would be no on-site maintenance personnel. While it is possible that the City can realize economies of scale relative to MHC in terms of utility costs and accounting and finance functions, it is impossible to believe that they would be able to maintain the facility with the dedication, care, and pride that MHC has lavished upon the facility with a staff of only two custodians. The community using the Plaza, whatever community that is, deserves

a better maintained facility than what could be provided at that cost. One astute staff member here at MHC points out that, in attempting to answer this burning question of what it costs to operate the Plaza, neither consultant looked much beyond the figures MHC provided detailing what we actually spent to operate the Plaza, which is not quite the same question. Why didn't one of the consultants sit down and do some budgeting of their own? How much is a standard service contract on elevators, on HVAC systems, on telephone systems, on theatrical sound systems? How much would they have to spend if they went out and hired landscapers to care for the gardens, cleaners to wash the Pavilion windows and the Plaza stones, a pool company to service the fountains? We would be very surprised if they didn't find that all this would add up to a lot more than what MHC has been spending on the same services.

- 13. The community has expressed concern over the perceptions of inequality in the way the City supports the Plaza vis-a-vis other cultural facilities in the City. Our findings reveal that contrary to receiving less support than other cultural facilities, the Plaza operator's percentage of City O&M support has been substantially higher than that of other organizations.**

Once again the consultant's analysis is flawed and misleading. For one thing, the consultants have chosen to compare percentages in a year, 2007, in which MHC received a one-time assistance from the City, thereby inflating the percentage of support we received relative to our standard funding. **They have also artificially deflated the number for the SJ Museum of Art by failing to include the non-cash subsidy they receive in the form of direct O&M support, and noting this only in the footnote.** Also, all the organizations the consultants compare MHP to have budgets more than twice as large (in the case of the Tech Museum, more than 7 times as large).

- 13. (The consultant report is misnumbered at this point, so there are 2 number 13's.) Many nonprofit managers consider "capitalization" business models for nonprofit organizations the ultimate solution to financial woes. The Plaza operator has articulated a diagnosis of the Plaza's financial difficulties based on the lack of adequate capital. But when applied to nonprofit entities, capitalization is a curious term that requires substantial contextualization and adjustment in order to be applicable and useful. The argument that many non-profits have to adjust to a lack of capital is true but irrelevant to the discussion. There is a certain minimum amount of capital that is needed to run the Plaza correctly and for the benefit of any community. Neither MHC nor any other hypothetical operator can find a way around that requirement. Social capital will not keep the equipment running. We also note, as the consultants refer in the footnote to arguments by Andrew Taylor, the head of the arts management**

program at UW, that the blog entry they refer to in no way actually supports the consultants' argument.

14. **Based on field visits to institutions comparable to the Plaza, interviews with key community stakeholders, and reviews of best practices in nonprofit management, our study has determined that a ProForma organizational template for a mid-sized cultural heritage organization (CHO) is better suited to the size, capacity, and character of the Plaza than the model of a large cultural facility operator and/or mainstream arts organization. This may be true if you accept the consultants' desire to transform the operating model into a community cultural center. Otherwise, the argument is invalid.**
15. **The most fundamental and urgent change needed to set the Plaza on a course of financial stability is a new approach to budgeting based on best practices of the nonprofit sector by a Plaza operator. The implication that MHC does not practice income-based budgeting or create program budget with cost allocations is untrue and misleading. The current management has always practiced income-based budgeting and we are just now recovered enough from the mistakes of our predecessors to institute detailed program budgets.**